MODERN BUSINESS

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Modern Business

A Series of Texts
prepared as part of the

Modern Business Course and Service

Registered Trade Mark
United States and Great Britain
Marca Registrada, M. de F.

Alexander Hamilton Institute

JOSEPH FRENCH JOHNSON

FOUNDER OF

ALEXANDER HAMILTON INSTITUTE

(1909)

AND FIRST EDITOR-IN-CHIEF
OF THE

MODERN BUSINESS SERIES

Foreign Trade

By

J. Anton de Haas

Ziegler Professor of International Relations,
Graduate School of Business Administration,
Harvard University

Alexander Hamilton Institute
New York

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PREFACE

American business men are developing a rapidly growing interest in the subject of foreign trade. The reasons are not difficult to discover.

The manufacturing plants of the United States are equipped to turn out a greater volume of products than the home markets can absorb. Improved equipment, better-trained workers, greater facilities for financing, and more efficient management, all stimulate increases in production at reduced cost. An almost unlimited production potential has thus been developed. However, profit margins are low, or absent, unless plants can be operated at or nearly at normal capacity.

With home markets well-supplied, and competition particularly keen, the manufacturer is turning toward untapped or undersupplied foreign markets to secure the marginal outlet for his goods that will assure profitable business operation.

The American distributor who sells abroad is likewise vitally concerned with the many phases of foreign trade that affect his activities and business success.

The foreign market cannot be approached in the same manner that the home market is reached. Social, political and legal obstacles must be surmounted. Tradition, habits, preferences, tastes, and buying power are different in each country. The markets

must be studied, and there are efficient government and private agencies that render valuable aid in this field. Packing, shipping and transportation problems arise and they must be solved correctly and with economy. The financial transactions and the many legal documents involved must be handled according to established procedure. An organization must be developed to take charge of all this work.

Importing, likewise, has its special problems for the distributor, merchant, or manufacturer who draws upon foreign sources of supply.

The author of this Text on "Foreign Trade," J. Anton de Haas, Professor of International Relations, Graduate School of Business Administration, Harvard University, has ably presented all the important phases of the subject in a most practical and useable manner. From his extensive knowledge of the many factors in this field he has built up his discussion of the topic to serve best the needs of the business man.

Foreign trade, as the author points out in his closing chapter, has a wider significance than mere business dealings between sellers at home and buyers abroad. The impressions created and the goodwill engendered by business undertakings conducted with fairness and benefit to both sides can accomplish much in building up friendly relationships for America abroad.

EDITOR-IN-CHIEF.

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FOREIGN TRADE

CHAPTER I

RELATION OF FOREIGN TRADE TO DOMESTIC BUSINESS

1. *The relative importance of foreign trade.*—It has sometimes been claimed that foreign trade cannot be a matter of very much importance to American business because the domestic market is of so much greater proportions that the relatively small foreign market could disappear altogether without greatly affecting the prosperity of American industry. It is true that for the last twenty-five years the ratio of our exports to our domestic production has been, roughly speaking, about 10 per cent. This percentage has fluctuated but little notwithstanding the fact that our exports are to-day six times as great as in 1900. But it would be a mistake to jump from this to the conclusion that foreign trade is of minor importance to our commercial life. Even 10 per cent is an amount which must not be underrated. Ten per cent difference in sales volume may mean the difference between profit and no profit in many lines of business.

We must not forget that an average is always misleading. Although 10 per cent may correctly indi-

cate the relation of all our exports to all our domestic production, this figure tells us nothing of the importance of foreign trade to certain industries. When we break up the average into the specific groups that compose it we see quite a different picture.

2. *The importance of foreign trade to specific industries.*—We exported in 1927 more than 60 per cent of the cotton, more than 39 per cent of the tobacco, and more than 30 per cent of the pork produced in this country. In mining, forestry, and manufacturing also we find that some industries depend very largely upon foreign sales.

To abandon foreign markets would mean sacrificing 59 per cent of all sales in the motorcycle industry. Other industries greatly affected would be the locomotive builders with 28 per cent, typewriter manufacturers with 39 per cent, producers of turpentine with 56 per cent, of rosin with 72 per cent, and of kerosene with 34 per cent of the whole output.

Many industries, finding the domestic market less and less able to absorb the increasing output of many competitors, to a greater and greater extent seek an outlet abroad. The automobile industry sold abroad in 1919 about 4 per cent of the total number of cars produced, but this percentage had increased to a little over 11 per cent in 1927 with every indication that this foreign field will assume larger and larger proportions as the years go by.

3. *The foreign market as a means of reducing costs.*—Where the domestic market is limited, as it

often is, in its power to absorb certain products at a given price, several methods of increasing sales and reducing costs can be found. Too often it has been assumed that greater sales effort is the most effective answer to the problem. This idea has been somewhat encouraged by those who have advertising space to sell. But many firms have discovered to their sorrow that the law of increasing costs, or of diminishing returns, operates in the field of selling as it does in every economic activity.

Where the point is reached that more outlays for selling bring in diminishing returns it is time to find some other solution to our problem. Price reduction suggests itself as a possible way out. But that may be dangerous and is not always possible nor profitable. Many goods are subject to a demand which is fairly inelastic. A cut in price will not move them in sufficiently larger volume to justify the change. In fact it may injure the sale of an article which for some time has been selling at a standardized price. It may even go contrary to the past sales effort which has been closely linked with an attempt to establish a price for the product as well as a demand for the product itself.

Under such circumstances the foreign market offers an opportunity to increase sales, to enlarge output, and to cut the overhead charges on each unit without upsetting the domestic market situation.

4. *Dumping as a business policy.*—This calculation, and the reward it offers in increased profits from

domestic sales without increasing their volume or changing their price, is often responsible for what is generally considered one of the most objectionable practices in foreign trade. The practice of selling abroad at a price below the domestic market price is called "dumping." It is argued that selling at so low a price, in fact selling below cost, cannot be a sound business policy, and must therefore be practiced only in the hope of a greater gain in the future. This gain, it is assumed, lies in the destruction of competition, whereupon, at a later time, higher prices can be charged that will more than make up for the momentary sacrifice.

There is no doubt that in some instances, especially in the case of products marketed in bulk, such considerations lead to the dumping practice. But much dumping does not take place for those reasons but rather because an outlet must be found somehow for the permanent surplus output of the factory. Nor is the assumption correct that selling abroad for a lower price than at home is an unpatriotic act, or represents in fact taxing the home consumer for the benefit of the foreigner. Indeed, it is quite possible that, without the possibilities of selling at a low price in the foreign market, the manufacturer would find his cost per unit increased to such an extent that he would have to raise his domestic price.

There are certain limits beyond which the price differences between the home and the foreign markets cannot go. In the first place, if prices differ too

greatly, there is a real danger of having the goods bought abroad reimported into the home country and sold in the home market in competition with the factory's own sales.

Another limitation on the practice of dumping is the action that governments may take in defending their manufacturers against what is regarded as unfair competition from abroad, by means of antidumping duties.

5. *Commercial and noncommercial risks.*—In carrying on a business transaction the merchant faces many risks. Some of these are commercial. The merchant may make a wrong estimate of the price at which the goods will sell. He may be unduly optimistic in regard to the amount of an article that the market may be able to absorb. If he makes any profits he makes them because of having guessed correctly. These uncertainties are a legitimate part of "the game."

Other risks are noncommercial and arise from factors beyond the control of the merchant. Typical noncommercial risks are the danger of fire, storms, water, theft and, as in the recent war, an attack by enemy vessels. No amount of foresight can guard against these dangers.

Fortunately, most of the noncommercial risks are insurable. This means that they may be reduced to a definite payment, a premium known in advance, which may be included in the cost of the transaction. One may insure his goods against fire, theft, damage

by sea, or losses resulting from the dangers of war. The risk involved in domestic and foreign credit transactions may also be covered by insurance.

Nevertheless, a number of noncommercial risks remain, against which insurance is impossible. Unforeseen factors may bring about a depression that paralyzes the market. War may be declared, banks may fail, a political upheaval may cause consumers to restrict their purchases. Some sudden change in fashion may destroy the value of large stocks of merchandise, or result in the sacrifice of a large capital investment. For example, no one could have foreseen that the bicycle, constantly gaining in popularity for commercial and pleasure uses, would, as by a wave of a magic wand, almost disappear from the streets of our cities.

6. *Foreign demand an insurance against risk.*—An active foreign demand, though not offering absolute protection against these risks, softens the effect of such catastrophes. It is unusual for a depression to be felt in all countries to the same extent. If times are hard in the United States, conditions may be favorable in the Argentine, or in the markets of South Africa. Thus, the foreign demand may frequently absorb the surplus made available by a weak market at home. Even when the foreign customers cannot buy up the entire surplus, the effect of the depression is minimized by as much as they do take.

It is one of the happy dispensations of foreign trade that firms are frequently able to continue sell-

ing in foreign markets goods that are no longer acceptable to the American trade. Sometimes the foreign consumer is not aware of the fact that the style has changed. It is difficult to follow changes in distant markets, and the firms selling the products have no interest in informing the consumers. Few nationalities are so constantly looking for changes, so willing to take up with fads, as the Americans. The peoples of the older countries are more conservative. Once an article has proved its worth, they do not care to experiment. They admire Yankee ingenuity, but prefer to await the verdict of time concerning the practical value of a new invention. Thus, the double-keyboard typewriter is still in general use in European offices. The bicycle is used in the countries of western Europe for business as well as pleasure.

Hence, the slowly changing demand abroad enables the American exporting firm to temper the somewhat sudden changes in the domestic market, and to do so gradually, and without great, if any, loss of investment. Machinery and partly finished products need not then be scrapped for they can be used up in supplying the foreign consumer.

7. *Seasonal demands offset each other.*—Many products are subject to seasonal demand. Such goods are produced at relatively high cost. Unless some other provision is made for its use, machinery needed for a full capacity outlet will for months stand idle, either wholly or in part. This plan of operation

is expensive. When, to avoid this situation, the factory is kept running throughout the year, a large stock of finished goods must be accumulated during the slack season to meet the demand coming later. This plan is likewise expensive.

Where an active foreign market is available, the situation is much more favorable. When it is winter in the United States, summer dresses and straw hats are in demand in the Southern Hemisphere. A factory supplying both North and South America with such seasonal goods need never stand idle under normal conditions. Less risk attends its enlargement. With the demand extending through the year, it is not necessary to accumulate large stocks of finished goods. The demand can be largely, if not wholly, supplied as it arises.

8. *Foreign trade profitable.*—Apart from these considerations, which indicate how foreign trade may strengthen the competitive position of a merchant in his domestic market, it is obvious that foreign markets offer the same opportunities to increase sales and thereby insure profits as would accompany an extension of the domestic market. To some countries foreign trade is a matter of commercial life or death. Great Britain's importance as a commercial and financial world power is derived largely from foreign trade and from the performing of banking, transportation and insurance services in the foreign trade of other nations. The amount of the annual freight bill alone owed by the world to the United Kingdom, is

estimated at $500,000,000. Exports amount to $88 per capita as compared with $40 per capita in the United States.

Great Britain stands by no means alone in this respect. In fact, many countries present a much larger per capita export trade. We find that New Zealand leads the world with a $178 per capita, followed by Canada with $132, Denmark with $120, Australia with $111, and Holland with $100. The lowest per capita export trade is found in the case of China with $1.50. However, these figures should be interpreted with care, for, although expressed in the same terms, they represent, in fact, fundamentally different conditions. An agricultural country is in a quite different position with respect to foreign markets from that of an industrial country.

The export trade of Great Britain is composed largely of manufactured goods; more than 75 per cent is thus accounted for. This fact means that industry in Great Britain is built to a large degree upon foreign markets. As a result, her large factory population will face unemployment unless foreign sales can be kept at the necessary level. The industrial population, in fact, has far outgrown the domestic food supply. Foreign trade, once the servant, producing greater profits has now become the master. Markets must be maintained if England is to continue to live.

To a greater or lesser degree this is the situation that develops wherever foreign trade in manufactured

products assumes relatively large proportions. This pressure from within explains the compelling force back of the competition that will be met from other nationals as soon as one enters the foreign field.

9. *The character of foreign competition.*—In addition to this competition from merchants of other nations one must expect also to meet competition from other American firms. The benefits of foreign trade are therefore not secured without a severe struggle.

The character of this competition is not different from that encountered in the home market. In the competitive struggle at home price, quality, service, and a product adapted to the needs of the market are the four elements that determine success or failure.

In the foreign field the situation is essentially the same, although possibly the emphasis may shift from one element to another. In some markets it will be the price that will most influence the customer's attitude. In another country the same article may make its appeal primarily on the basis of service.

10. *Price.*—Price is always a strong selling argument. When we compare the wages of the American working man, and his short hours of work, with the much lower wages and longer hours found in most foreign factories, then it would seem that competition on the basis of price is out of the question for American firms. But the cost of production of an article contains a great many items besides wages, and, what is more significant still, the wages paid per hour, or

per day, do not determine the labor cost of the article produced. If the output per man increases faster than his wages increase, the labor cost of each article will decline while wages rise.

That fortunate situation characterizes most American industries. It is a striking fact that the very industries in which highly paid skilled labor constitutes an important part of the cost of production, have been among the more successful in meeting foreign competition. The American automobile, typewriter and adding machine industries are formidable competitors of their foreign rivals.

The intelligence of the workmen and their willingness to coöperate, labor-saving machines and methods, and effective management are factors of greater importance than the wages paid per hour and the length of the working day. This is a point of view as yet quite foreign to European industrial leaders, and the cost of production in many of their plants reflects their attitude.

In the case of luxury goods price often plays very little part. In the domestic market an atmosphere of exclusiveness may sometimes place an article of moderate value into a much higher price class. In foreign trade this is very frequently the case. It is comparatively easy to give the article an exclusive appeal. The very fact that it is imported is a point in its favor. Who, indeed, would dare to question the superiority of French perfume as compared with a similar American product? Would it not be display-

ing gross ignorance to doubt the more perfect workmanship and balance of a golf stick made in Scotland? If any doubt remains, the higher price for the imported article should easily dispel it.

So high price may become a selling argument. The higher price is readily paid by those who wish to be known as belonging to that group to whom price makes little difference.

11. *Quality.*—The higher priced imported article may be actually superior. It will be found often that a reputation of quality has been previously built by goods of a given nationality and that higher prices can therefore be commanded. This is distinctly true in those cases where exclusiveness plays no part and quality speaks in terms of usefulness. This fact is illustrated by the condition in the hardware market in Australia and South America. The cheaper German hardware found at one time a ready market and is again regaining its position. On the other hand, the more expensive hardware from the United States sells where a higher quality is required. In a sense there is only limited competition between the two groups.

High quality may sometimes prove a handicap. This rather unexpected development may be illustrated by the preference which Russian farmers had before the war for German and Austrian farm machinery, although it was admitted that in quality it was inferior to the American machines. The reason was found in the fact that the village blacksmith ex-

perienced great difficulty in repairing American machines on account of the high quality of the steel of which they were built. The cheaper machines of low grade material were more easily kept in repair.

12. *Service.*—No business man is so thoroughly convinced that the sale of an article is only the first part of the business transaction as is the American manufacturer. It may be said without fear of contradiction that the American attitude toward selling has changed fundamentally during the last twenty years. Formerly it was thought that a sale was successfully completed when the customer took the goods away to do his own worrying and regretting. The new attitude is quite different.

Represent the goods fairly, make it easy for the customer to own the goods, and give him every assistance to get the maximum use out of the article. This statement sums up fairly the new sales policy of most American firms. They honestly try to sell use—service, rather than goods. A body of loyal enthusiastic customers will be the reward of such sales methods.

Abroad, where the ideal of service has often not penetrated, or is still regarded by business men as so much American "humbug," the response of the buying public will be even more genuine than in this country. Already, the American business man has built abroad a reputation of being hard in driving a bargain, but honest in fulfilling it, and, above all, possessed of a sense of fairness which would induce

him to shoulder a loss rather than to engage in penny-wise practices.

13. *Foreign trade requires investments.*—From the outset it must be understood that the developing of foreign markets is slow and expensive work. The manufacturer who has decided to enter them must be prepared to make a large investment and wait patiently for the returns.

It is frequently necessary, when placing American products on foreign markets, to create the realization of a need for them. Many articles, regarded at home as necessaries, are either wholly unknown abroad, or looked upon as luxuries.

It takes careful analysis of the nature of the market, careful planning of sales and advertising campaigns, and the patient development of a desire for the products in question, before a return on the investment can be expected. After the demand has been created, constant vigilance and sales cultivation are required to hold the market, to prevent local and other foreign competitors from reaping the fruits of the initial, heavy outlay. The danger of cheaper substitutes and infringements upon patent rights is a constant cause of anxiety.

The personnel of the selling force must be high grade. Many firms make a capital mistake in disregarding this requirement. It is impossible to exaggerate its importance. The representative abroad is no less than a business ambassador. He cannot possess too much general and professional education.

Only a man of the world, with sound business knowledge, can successfully compete with the highly-trained representatives of German and English firms.

Such men are difficult to secure and expensive to keep. They must live in good hotels, dress well and entertain generously. It must not be forgotten that they constitute the personal link between the customer and the house. The house is judged mainly by the appearance, manners and air of prosperity of those who represent it. Parsimony in this respect is the worst kind of economy. If to these heavy charges are added the cost of travel to and from the foreign country, the loss of the employee's time during the voyages, the expense of cable messages and of postage, it becomes apparent that the foreign field should not be entered without a due appreciation of its financial demands.

14. *Foreign trade requires special knowledge.*— In most European countries, foreign trade is the goal of all ambitious business men. There the small man of moderate means and narrow horizon may not be satisfied until his letterhead is known in the four corners of the world. As a youth he prepared for this consummation. He studied languages, commercial geography, and the technique of international commerce, in the schools. He served years of apprenticeship at ridiculously low salaries with exporting firms at home and abroad. In short, he prepared for foreign trade as another would for the profession of law or medicine.

In the United States, until recently, commercial education has been wholly inadequate. Foreign travelers are astonished at the haphazard, slipshod way in which business transactions are too often carried on in this country. The need for better-trained men in domestic business, however, is being felt more widely, and this need is even more urgent in our foreign trade. The school of experience is too expensive an institution.

To meet the newly-felt need, many of the larger high schools and universities are developing courses. They are still in the formative period and in thoroughness and scope are not to be compared with similar courses in the commercial schools of Holland, Germany, or Belgium. But they represent steps in the right direction.

The American Manufacturers' Export Association in 1918 gave its cordial indorsement to the idea of more specific training in service for foreign trade. As an aid in the development of educational courses the Bureau of Foreign and Domestic Commerce in 1919 issued a bulletin on Training for Foreign Trade. The bulletin is designed "to meet the needs of those who organize and instruct classes, by assembling, systematizing and organizing literature of foreign trade with reference to the best methods for instruction in the technique and character of our foreign commerce." It contains topical outlines on many aspects of international commerce.

It cannot be impressed too strongly upon the readers of the present volume that the completion of this

text is but the first step upon the road. In order to qualify as a specialist in foreign trade a thorough study of economic resources, commercial geography, ocean transportation, marine insurance, international law and allied branches must follow this introductory work.

15. *Educational value of foreign trade.*—Not the least of the advantages of carrying on trade with foreign countries is the broadening effect which a careful study of foreign markets, customs and languages gives. The intellectual pleasure and profit which comes from an understanding of unfamiliar conditions, from the widening of one's horizon, is in itself a compensation for much of the effort expended.

The experience and knowledge gained in foreign lands may also aid in solving domestic problems. At any rate, foreign trade introduces some of that element of adventure and of the romantic into the humdrum of daily routine, which invigorates the management and promotes coöperation among the members of the staff of the concern.

REVIEW

Explain how an established foreign demand may stabilize domestic business.

Give a definition of "dumping" and explain why the practice may become a definite part of the sales policy of a concern.

Distinguish between commercial and noncommercial risks.

It has been claimed that export trade should stop. State your opinion with respect to this.

Explain how American manufacturers may compete abroad notwithstanding the high wages paid to their workmen.

Enumerate the principal items which make it necessary to have a large working capital when engaging in foreign trade.

CHAPTER II

FOREIGN TRADE AND NATIONAL PROSPERITY

1. *Three points of view.*—It may be said that in the popular mind three different attitudes are found with respect to foreign trade. There are some who would wish the nation to become as far as possible self-sufficient, both with respect to the products now imported from abroad and with respect to those which now find foreign markets. A second group consists of those who can see a decided advantage in selling goods to foreigners, but who see no reason why, in return, the nation should not as far as possible prevent foreign products from entering the domestic market. They believe in one-sided trade as the ideal for which to strive.

The third point of view is that foreign trade is a natural expression of economic necessity and that nationally, as well as internationally, maximum efficiency and general well being can be attained only by an international exchange of commodities free from all obstacles and restrictions. In order to appreciate the problems arising out of international commercial relations it may be helpful to examine somewhat more in detail these three widely different positions.

2. *The ideal of self-sufficiency.*—It cannot be denied that in the case of war, when normal commercial relations are interrupted, the state that is most nearly self-sufficient strategically has the strongest position. The argument of self-sufficiency is most likely to appeal to those who look upon war not so much as a contingency which happily may be avoided by the conscious efforts of the nations of the world, but as an unescapable certainty. To them it is merely a question of time and the nation will find itself completely shut off from outside sources of supply and foreign markets.

Accepting for the moment this pessimistic point of view, let us see just how far it will be possible for a nation to attain self-sufficiency, and what will be the effect upon the national economic life of an attempt to become economically independent.

3. *Absolute self-sufficiency is impossible to-day.*—When life was simple, and the needs of each locality could be almost wholly supplied by the production of the locality itself, self-sufficiency was quite readily possible. Such was the condition in Europe during the Middle Ages when only the church for its incense, silks, precious stones, and sacramental wines depended upon far distant sources of supply. The common man had no needs which his own locality could not supply.

It is evident that at present our standard of living has accustomed us to many products that cannot possibly be produced at home. To close our borders to

their importation would mean that the countries of the temperate zone would forego the use of cocoa, coffee, tea, rubber, spices, bananas, in short, of all those products of the tropics that long ago have passed out of the class of luxuries into that of necessities.

Modern industry has also given rise to a need for an international exchange of commodities, which did not exist prior to the machine age. It is indeed a strange fact that every new invention makes the nations more dependent upon widely scattered and scarce raw materials. Many of the inventions like the telegraph, telephone, and radio, while making communication between nations more readily possible, seem thus to contribute at the same time in making such communication more necessary.

We usually think of the United States as a country singularly blessed in natural resources, and which could, with more impunity than any other single nation, intrench itself in a state of economic isolation. In part, this is undoubtedly true, but only in part. If we were to draw up a list of industrial raw materials, that, although forming the very essence of our modern life, cannot be produced in this country, or only in insufficient quantities, such a list would be long, indeed. It would include such raw materials as antimony, chromium, cork, hides, jute, manganese, mica, nickel, nitrates, platinum, quicksilver, shellac, silk, rubber, sisal, tin, tungsten, and vanadium.

Anyone at all familiar with the materials of which

our electrical apparatus, our automobiles, and our airplanes are constructed, will need no great amount of imagination to grasp what would become of that material civilization in which we take legitimate pride, should the further importation of the raw materials mentioned in some way permanently cease.

4. *Why not exclude manufactured goods?*—This question should fairly represent the attitude of mind of those who hold that nation most successful which succeeds in selling to its neighbors, but purchases in return only the goods needed to supplement its deficient resources.

Much may be said in favor of this attitude of mind. In the last analysis, it is based upon the assumption that a nation may be considered as an enlarged individual. In the case of an individual it is undoubtedly true that he who sells to others, but purchases next to nothing, is on the highroad to great wealth. But when we look into the matter somewhat more carefully, we discover that two factors have been omitted from this reasoning.

In the first place, we have failed to take into account that no individual, if he is wise, will carry his ideal of one-sided trade to such an extreme that he will undertake to attempt to produce everything he needs himself. If he is a shoemaker, it would obviously be foolish for him to stop making shoes, in which he excels, in order to make his clothes, raise his wheat, or build his own house, all in order that he may not have to buy from others. It would obviously

be to his advantage to concentrate all his energies upon the making of shoes and to use the proceeds of his sales, at least in part, in purchasing other necessities, or even luxuries, wheresoever he could procure them at the lowest price and of satisfactory quality.

The same reasoning applies to a nation. Even assuming that a country has within its borders all the resources and all the technical skill and knowledge required to make all the goods it needs, still, if some goods could be made more skillfully or more cheaply abroad, it would, generally speaking, be an advantage to a nation to import them, and to concentrate its productive efforts upon those goods which it can make better than its neighbors.

5. *One-sided trade defeats itself.*—But there is yet another consideration left out of the reasoning that led to the conclusion that one-sided trade was possible and desirable.

How are other nations to pay for the goods they purchase? The answer may be given that they can pay as an individual can pay another from whom he purchases goods. Payment may be made in money.

But how long can this process continue? Until all the gold in the world has flowed into the pockets of the exporting nation? This much is certain; that one-sided process could not continue beyond this point. As a matter of fact, the exports would stop long before all the gold had been thus concentrated in one country.

As the quantity of gold in the country that is ex-

porting goods increases, the prices of labor and raw materials will rise. Gold is in many respects like any other commodity. The more there is of it, the less each unit will be valued. If I have one dollar and want to purchase a watch the highest amount I can be induced to pay for the watch is the one dollar. If, however, I possess two dollars and have the same desire to purchase the watch, I may be induced to part with the two dollars in order to acquire it.

In general terms, we may therefore state that an increase in the amount of money in circulation in a country is certain, sooner or later, to be reflected in the prices of goods exchanged for that money.

If we apply this reasoning to the question under discussion, we come to the conclusion that an outflow of goods and an inflow of gold must result in an absolute increase in the quantity of gold in that country, a condition which must result in increased prices, the more so since, by the same process, the quantity of goods in the exporting country has diminished.

But it is clear that even one-sided trade is based on the ability of the exporter to sell at an attractive price. An increase in prices within the exporting country will very soon be reflected in the price quoted on the articles exported. Sales will fall off and the one-sided trade will ultimately stop altogether.

It may be said that sales to foreigners do not necessarily result in a flow of gold, because the proceeds of such sales may be left abroad to be invested in local enterprises. We shall see that this is what does

occur between nations, and on a very large scale, but this in no way affects our argument. An investment abroad represents merely a postponement of payment. It would indeed be an unwise investment if we had no reason to expect an annual income from that source, and could never hope to have the principal refunded.

These conclusions, then, seem justified. Self-sufficiency is unattainable and undesirable, and one-sided trade is economically unsound and can at best be only temporary.

6. *Foreign trade essentially an exchange of goods and services.*—If the export trade of a country is not to perish as a result of its own growth, other means of payment must be possible besides gold and foreign investments. Such means of payment are found in two forms—goods and services. Great Britain could not possibly feed her population, even if the lands which now lie uncultivated as the hunting preserves of her men of wealth were turned into farms. The production of the agricultural industry would be insufficient to support the population.

In certain lines of manufacturing Great Britain has developed great skill, and the markets of the world are willing to buy the products of these industries. Payment is made in money, of course, but the purchasing power thus made available abroad is turned into goods, and, as a nation, Great Britain receives in return food for her workers, luxury articles for her well-to-do, and industrial raw ma-

terials for her plants. Although a portion of the proceeds may remain abroad and may join the already large fund representing England's foreign investment, the bulk flows to England in the form of goods. Goods are paying for goods.

But the goods exported from Great Britain alone would be quite insufficient to pay for the goods she needs to import from abroad. Fortunately for that overpopulated country, there are other means of paying for the imports that she receives. English ships carry goods of all nations from port to port. The freight money paid abroad and received by them finds its way to the home country in the form of additions to the list of imported goods. The income that English banks and English insurance companies receive for their services, added to the interest and dividends which fall due to English investors, create an additional fund which, translated into commodities, flows to England in the form of wheat from Canada, coffee from Brazil, and copra from the South Sea Isles.

Goods and services pay for goods and services. Gold, in foreign as in domestic trade, is a convenient yardstick of value, a convenient means of transferring purchasing power. It never marks the end of a transaction. Gold does not satisfy human wants. The trade is not completed until goods capable of satisfying human wants or services have been returned to those from whom goods and services were received.

7. *The international division of labor.*—It is upon such reasoning that the third point of view with respect to the real meaning and value of foreign trade is based. If foreign trade is an exchange of services and goods, if it means that one country, skilled in and favorably situated for the production of cotton goods, exchanges its products for the wheat, or bananas, or the rubber that some other country can produce far better and cheaper, then it follows logically that the greatest well-being of all nations can be attained only when such an exchange of commodities and services takes place with the greatest freedom.

The world will then become one large coöperating society of producing units, each concentrating upon the production of those goods in which it has the greatest natural or acquired advantage. This specialization among the nations is sometimes spoken of as the international division of labor. Any obstacle placed in the way of such a free exchange of goods and services will interfere with the highest degree of specialization, and will, in the end, diminish the productive efficiency of all units, with resulting damaging effects upon prosperity and human happiness.

8. *The balance of trade.*—Much attention is frequently devoted to discussion in international trade of what is called the "balance of trade." A country is said to have a "favorable balance of trade" when it has an excess of exports over imports, that is, ap-

pears to be selling more than it buys, while the opposite condition is called an "unfavorable balance." After our discussion of the real meaning of foreign trade, such terms must seem quite meaningless. If, indeed, a favorable balance did indicate that a one-sided trade existed, the knowledge that such a condition can only be temporary destroys much of its significance.

It may occur, of course, that a favorable or an unfavorable balance will continue for a long period of time without any apparent tendency to diminish in volume. But this does not prove our conclusion invalid. It means merely that the statistics of commodities imported and exported do not tell the whole story.

As pointed out with respect to England, when imports exceed exports the exports of goods in that case are insufficient to pay for the imports. Services and income from foreign investments are then drawn upon to make up the difference. But these do not appear upon the balance sheet of the commodity shipments. In looking at the commodity figures, all that can be seen is that England continues to import more than she exports, year in and year out. This condition is possible only because of the other means of payment that are available.

It must not be thought, however, that there is no significance in the commodity balance, although the terms "favorable" and "unfavorable" have lost their

meaning. The commodity balance of a country may reflect the state of economic development in which it finds itself.

9. *The commodity balance significant.*—Suppose Canada secures the coöperation of British capitalists in the building of an extensive addition to her railroad system. This undertaking will require a very large amount of capital. Very little of this capital will flow to Canada in actual gold.

Railroads need rails, bridges, signal systems, locomotives and cars, and a large part of this will be supplied by the manufacturers of Great Britain. In fact, it is not at all uncommon, in granting foreign loans, to make it obligatory to the borrower to invest the proceeds of loans in the purchase of materials produced in the country from which the loan is secured.

But even if the materials are shipped to Canada for the construction of a railroad, and all requirements are supplied by Canadian factories, it is clear that the net and final result will be, not that gold will flow to Canada, but rather that the imports of commodities of various kinds into Canada will increase. Will this bring about an "unfavorable balance" for Canada? Probably it will result in an excess of imports over exports, but this can hardly be called unfavorable. Is not the productive capacity of Canada, and thereby the wealth and comfort of a large number of her citizens, greatly increased by the new railroad?

But the commodity balance does not continue unfavorable. The railroad, along with many enterprises initiated by foreign capital, begins to yield an income. A large portion of this income must be transferred abroad as dividends on the stock and interest on the bonds held in England. The transfer is made in wheat, in apples, and in all kinds of commodities produced in Canada which form part of the food bill of Great Britain.

Canada's trade balance now turns "favorable." But what has really happened? Canada has passed out of the condition of a potentially productive and investment-receiving country, into the more mature state of a producing and income-yielding country.

Canada, in virtue of her resources, the ability and energy of her citizens, and the assistance of outside capital, now begins to produce in such large volume that, after payment of the interest and dividends due to outside investors, additional income is available for permanent investment. Let us suppose that, through the activities of Canadian branch banks in Central and South America, this capital finds its way to these countries. Again the trade balance will show the effects, for transfers are made in commodities, directly or indirectly. Canada builds up a trade balance which for a long period of time will be called "favorable." Thus, surplus capital flows out of the country in this third, or capital-exporting stage.

Gradually, Canada will enter the fourth stage of economic development. She will then find herself in

a condition comparable to that of Great Britain. So much capital has been invested abroad, that the income received from it finally reaches a figure which, combined with the imports required to pay for exports, causes the commodity balance to appear once more as "unfavorable."

But there is no great cause for alarm. Indeed, the condition of the commodity balance now indicates clearly that the world is engaged in paying Canada not only for what she is now exporting, but also for the services which she has rendered in the past, when she placed her capital at the disposal of less highly developed countries.

The commodity balance, by itself, therefore cannot give us a clear picture of what is really a country's international position. The commodity balance figures must always be supplemented by information concerning the flow of gold, of investments, and of services performed or received.

10. *The character of the goods exchanged.*—Climatic conditions and national aptitudes are probably the most important and permanent factors in determining the character of the products in which the various nations will specialize. It is obviously uneconomic for a country of the temperate zone to attempt to raise tropical products, at least as long as the cheap transportation connections are available, enabling it to secure these products from countries favored with a more suitable climate.

But there are also certain national aptitudes that

seem to cause one nation to excel in one line of activity, while taking second place in some other line of production. The practical-minded, resourceful Anglo-Saxon has generally excelled in inventions of a mechanical nature. The telegraph, telephone, submarine, phonograph, airplane, steam engine, typewriter—a list of inventions too long to enumerate—testify to his ability to master and subdue the forces of nature.

The German seems to excel wherever painstaking effort and careful investigation are required. Industries such as the chemical industry—which progresses, as a rule, not as a result of spectacular discoveries, but as the result of patient laboratory experimentation—these are the industries in which Germany leads the world.

The Frenchman, on the other hand, has long been considered the logical person to supply those articles of luxury which are not easily produced in quantity, but require an artist's skill and taste. Large-scale, machine production, depending upon a highly perfected system of management and skillful direction of a large labor force, does not characterize French industry.

In this sense specialization is actually found among the nations of the world, a specialization based upon climatic conditions and upon traits of national psychology.

11. *The trade in raw materials and manufactured goods compared.*—But, although specialization is

found, careful investigating will show that, on the whole, there is a surprising degree of uniformity of effort. In fact, there seems to be a decided tendency for the industrial nations of the world to produce a wider and wider variety of articles, and to diminish steadily that differentiation to which specialization would lead.

What are the factors playing a part in bringing about this situation? It is here that we must draw a sharp line between the raw materials of commerce and manufactured products. There is no doubt that, when we consider raw materials alone, a very large measure of specialization is found. That condition is only to be expected. Copper can be produced only where copper is present in the ground. Where there are no forests, lumber and wood pulp cannot be produced. But it is quite different with manufactured products.

Holland, without mines of any kind, except a diminutive coal mine in the southern tip of the province of Limburg, yet produces steel. In the face of a total absence of all the raw materials necessary for the production of paper, except water, the paper plants of Holland compete in Europe and South America with the products of plants in Finland, Sweden, and Germany, where forests abound. The explanation of this unexpected situation lies in the transportation factor.

Since it is no more, and often less, expensive to transport raw materials than finished articles made

of them, it becomes not only possible but desirable to take the raw materials to plants located near the markets, where the ultimate consumption of finished products is to take place. This fact is especially true of what might be called pure raw materials, since they contain no waste material. There is then no loss in freight charges. As a result of cheap and reliable transportation, industries in many parts of the world have developed far beyond the capacity of the local resources of raw materials. The Ruhr district of Germany depends on ore from Alsace-Lorraine, and from other European and even South American mines. The steel industry of Great Britain is, to a large degree, supplied by raw materials from the foreign sources, especially from Sweden. Natural resources, therefore, no longer determine the type of industry that will develop in a given country.

An exchange of raw materials, on the one hand, for manufactured goods, on the other, thus develops naturally. But it would be a mistake to conclude from this fact that the best market for manufactured products lies in countries which produce largely raw materials.

In fact, quite the opposite is true. The best market for the majority of manufactured products is found where the population is large, where standards of living are high, and where a demand has already been created for the many refinements of our modern life. This means that the best market for industrial products is in industrialized countries.

12. *National ambition a factor.*—In the above situation lie all the elements of international economic conflicts.

If the international division of labor were actually carried through, the most harmonious relations would exist between nations. There would be no reason why there should be trade rivalry between Germany and England, or England and the United States, as little reason as there exists cause for rivalry between a cake- and a shoe-maker. The better each individual performs his special job, the better it is for all concerned. It would be the same with the nations of the world. There would be great rejoicing in Germany over an exceptionally good wheat crop in Canada, and Canada would receive with satisfaction reports that synthetic nitrates were before long to be produced at a much lower cost in the plants of the I. G. Farben Industrie of Germany. The country that, in point of view of time, is ahead of the other countries in developing industries would remain in the lead for an almost indefinite period. Skilled labor, knowledge of processes, advantages of low cost of production resulting from large-scale production, experience in management and marketing, all would contribute to making its position secure. This is, indeed, a comfortable thought for the country in question, but what of the other countries thus doomed for a long period to come to remain industrially backward?

There seems very little hope for the rapid development of industry in those newer countries unless in

some way the inflow of manufactured goods from abroad be retarded, and their price increased sufficiently to offset the advantages that the established industries have gained.

The answer is found in trade restrictions, tariff, prohibitions—a large variety of obstacles that placed in the path of trade, establish the country in question in a position of relative isolation, and make the principle of the international division of labor for the time being practically inoperative. But does not this mean diminished efficiency for the country thus "protected," as well as for all other countries of the world? The argument is sound, and yet may there not be other desirable ends besides economic efficiency? May it not be that the sacrifice which a nation must make when placing obstacles in the way of the free flow of goods obtainable at low prices abroad is offset by advantages that may outweigh the disadvantages? This, at least, is the conviction of those who advocate protection as the wisest commercial policy.

Nor is the need for protection diminished when the country finally joins the ranks of the industrial nations. The large degree of similarity in products manufactured, and the fact that an industrial nation is the best market for industrial products, increase the intensity of competition between industrial nations.

Shall the answer be found in more protection? Obviously, there is a limit beyond which protection cannot go. What that limit is, is not so easily determined, but this much is certain, that complete or

nearly complete isolation would have a detrimental effect upon the domestic life. It is also not difficult to see that two can play the same game, and that if the United States imposes import duties generally regarded as excessive, say upon products imported largely from France, that France can easily use the same weapon against the United States, and place such prohibitive taxes upon films, automobiles, and other American products that exportation is no longer profitable.

But there is another restraint upon the too-enthusiastic framing of tariffs. The purpose of a tariff is to raise the price to the consumer of the goods thus protected. If the tariff affects many products, or products which form an important and indispensable part of the average man's budget, it is self-evident that his living expenses will increase. This increase will ultimately result in higher wages.

Similarly, the cost of practically all the materials and machinery used in industry will increase. This cost increase will mean a higher level of prices generally, which will impair the competitive position of the country's industries in the world's markets.

Competition in foreign markets will still be possible for those industries that, through superior management and a more skillful utilization of labor and capital, succeed in working at a low cost, notwithstanding the high prices paid for labor, raw materials and machinery. Those industries in which labor-saving devices cannot contribute much to increasing

production, and in which superior management and organization cannot easily be made effective, will find competition in the foreign field increasingly difficult. The position of the American farmer seems to be a case in point. Whatever may be done to improve his position by credit, education, coöperation or public subsidy, cannot change the fact that his principal problem is how to pay American wages and to live according to American standards, while selling his products at prices determined by factors outside the United States. This is a condition which can be remedied effectively only by an increased domestic demand, leaving no surplus for exportation, or by limiting production to bring it more nearly in adjustment with domestic need.

REVIEW

State the factors which make self-sufficiency an unattainable ideal for a nation.

Explain the real meaning of an "unfavorable trade balance."

Contrast the peaceful picture of "international division of labor" with the "struggle for markets."

Explain the effect which foreign investments have upon the direction of trade.

Criticize the statement: "Goods always move from countries of low prices to countries of high prices."

CHAPTER III

TRADE BARRIERS

1. *The increased tariff walls in Europe.*—Among the most disturbing economic results of the World War were the increased restrictions upon trade. The raising of the already-existing tariff walls would have been bad enough, but the condition was aggravated by the fact that, through the creation of many new and small countries, the total length of the frontiers in Europe was increased by a distance of about 4,000 miles, or longer than the frontier that separates the United States from Canada.

At a time when every effort should have been made to make commerce more easily possible, so that a return to normal conditions might be effected without unnecessary delays, trade restrictions far more numerous and more severe than before the war retarded the recovery.

2. *Conditions justified increased restrictions.*—An examination of the causes which led to the establishing of these new trade barriers reveals the fact that at least as a temporary measure they were justified. Czechoslovakia may serve as an illustration. Created out of the fragments of the Austro-Hungarian empire, it is composed of five subdivisions, Bohemia,

Moravia, Slovakia, Ruthenia, and a corner of Silesia comprising about 1,000 square miles that formerly belonged to Germany. Hungary and Russia each contributed to the territory of the new state. Although Czechoslovakia was officially recognized by Great Britain in the fall of 1918 and by the United States before the close of the war, the problems of the new republic were by no means ended. Leaving out of discussion the internal problems—the gigantic task of establishing friendly coöperation between Czechs, Slovaks, Ruthenians, and the German and Magyar elements in the population—the external commercial relations are of interest.

The republic faced the task of building a national unit out of territories economically separated, but intimately tied to surrounding countries. The rivers of the east flow southward and the inhabitants of that section were accustomed to work in the plains of Hungary during the harvest season. The mines and factories around Prague were financed from Vienna and found their principal markets in that rich city. The railroads had been built to serve the needs, both commercial and strategic, of Austria-Hungary, on the one hand, and of Russia and Germany on the other. The banks were mostly branch banks of large institutions located in Vienna, Budapest and Berlin.

It was no easy task to bring order out of this chaos. One of the first steps in that direction undoubtedly was to cut definitely all the old connec-

tions that tied the industrial and financial system of the republic to foreign and still hostile states. High customs duties, quotas limiting the quantity of certain foreign products that could be imported, were the means by which the new republic sought to weld its various parts into a national unit.

The customs duties served also a more immediate necessity. The new state needed money to organize its governmental agencies, both local and national. Customs duties proved, as in many other instances, the speediest, most certain and most easily-levied of all taxes. High tariff walls have served and are still serving their purpose in Europe.

3. *The effect of tariffs.*—A newly-formed state may find it necessary, for political reasons, to exclude foreign products, wholly or in part, by a high protective tariff. A state, passing from the agricultural stage into the industrial stage, may likewise seek to give newly-created industries the benefit of a domestic market in which foreign competitors will be at a disadvantage. The fact remains that, as we have seen, the export trade of the protective country will sooner or later be adversely affected by the increased price level, and by the decrease in purchasing power of the country's customers abroad. Each new increase in tariff rates will usually be followed by a demand for further increase on other products in the protective country, and will encourage other countries to resort to similar protective measures. The more important commercially a country is, the

more will the effect of an increase in its tariff be felt in other countries.

The natural reaction of Canada to a high American tariff has been to build an increasing demand for its products at home, and this can most effectively be accomplished by a rapid industrial development, with consequent increases in population and home demand. One tariff calls forth another, and trade suffers as a result.

4. *Commercial treaties.*—Unrestricted tariff rivalry would soon make foreign trade well-nigh impossible. The tariff law of a country applies to all countries alike. But not all countries are affected to the same extent. A tariff on wheat in Germany would have practically no effect on Holland, Belgium, or France, but would be felt very keenly in Canada, Argentina, or the United States. Where such a condition exists it is not unlikely that countries so affected may be willing to make concessions with respect to the duties charged upon products from Germany, if by so doing the duty on their wheat could be somewhat lowered. A commercial treaty will be the result.

A commercial treaty will thus make it possible for a country to distinguish between friendly and less friendly states, and the tariff can be more nearly adjusted to the actual needs of industry than could be accomplished by a tariff dealing with all countries on the same basis.

The higher the protective tariff of a country, the

more it can offer in the way of concessions to others. Often a tariff is purposely made higher than required, or desired, in order to place in the hands of the executive power additional bargaining power. However, this is a doubtful procedure, for excessive rates are looked upon as somewhat in the nature of economic warfare, and there will always be some country which feels that since it is clearly affected more than others, the increase in duties was directed against its merchants.

5. *Tariff treaties break down the tariff wall.*—Should all nations enter into such treaties with each other, it is clear that the total effect would be the reduction of duties all around. This reduction would not affect all articles carried in trade, but would certainly affect those that played the most important part in the commercial life of the countries concerned. It is because of this undermining of established tariffs that many statesmen oppose concessional tariff treaties.

If every concession granted results from specific bargaining between two states, the process of lowering rates will proceed slowly. As soon as the "most favored nation" clause makes its appearance the process is greatly accelerated. This clause, inserted in many commercial treaties, makes it obligatory upon the contracting nations to grant each other all privileges and concessions granted to other nations, or to be so granted in the future.

6. *Tariff unions a more advanced stage.*—The next

logical step to take, once a privileged group has been created by means of treaties, is to do away with treaties altogether within the group.

Thus, a tariff union is created. There are many instances of such tariff unions, the most important of which is the German tariff union that preceded the political unification of Germany. This union, formed between 1818 and 1834, established a single exterior customs barrier for the 18 states included, while removing all trade restrictions within the customs wall. The rapid commercial development of the German states that followed upon this experiment led to the expansion of the union until, in 1867, all the German states had joined. The close commercial and financial relations among the German states from 1871 were to find their culmination in political unity through the establishing of the German Empire.

7. *The tariff problem of the British Empire.*— There is no doubt that, by establishing a tariff union among the far-flung sections of the British Empire, the political coherence of the Empire would be strengthened along with the economic ties. But there are almost insurmountable problems that stand in the way of such a development. As early as 1887 attempts had been made by Great Britain to strengthen the bonds which hold the Empire together, by increasing the economic advantage of being a member of the Empire. The need for definite action was felt more keenly as the demand for self-government developed in the colonies and dominions.

Economic coöperation was hampered by several factors. In the first place, the dominions were interested in developing industrially and desired tariffs to assist them in so doing. Great Britain, on the other hand, traditionally a free-trade nation, had a directly opposing point of view.

The dominions did not wish to be separated from the mother country. The only way out of the difficulty was therefore for the dominions to establish a tariff system to protect themselves against foreign industrial competition, and to extend to British manufacturers the benefit of "preferential" duties.

Great Britain, in return for concessions on British manufactured goods, could reciprocate principally by granting lower rates on the raw materials and foodstuffs received from the colonies. But that presupposed higher duties on similar products received from other countries. Such a tariff structure would, in some cases, mean an increase in the cost of those products in the British market, thereby penalizing industry through higher costs of production.

Notwithstanding these fundamental difficulties, the system of imperial preference has developed to a marked degree, encouraged by the strong spirit of intra-empire coöperation engendered by the Imperial Economic Conferences of 1923 and 1926.

Two developments may contribute to strengthening this tendency. Any increases in the tariffs of the United States, and any sign of economic coöperation among the countries of continental Europe, will

serve to increase the apparent need for economic coöperation within the Empire.

8. *A European tariff union.*—It cannot be doubted that the prosperity of the United States is, to a large measure, due to the absence of trade barriers between the states of the union, thereby making the entire country into one market. The question has often been asked why Europe, observing our example, does not similarly do away with troublesome barriers by means of some form of a European tariff union.

This thought has occupied the minds of authors on economic subjects in Europe for many years. At first, these proposals looked forward to the grouping of the central European states, on the one hand, and the Latin countries on the other. Since the war, however, much publicity has been given to various plans for an all-European tariff union. In fact, some groups have even taken as their slogan, "The United States of Europe."

The fact that many countries in Europe, for many years to come, must continue to pay interest and principal on the enormous debts contracted in the United States during the war, has given these countries a feeling of a community of interest.

But it is not likely that even such considerations will be powerful enough to bring about active coöperation through a tariff union. The national antagonisms are too pronounced, the customs duties too convenient a source of revenue and the needs

for protection too varied, to make possible the establishing of one external tariff wall in the near future.

Great Britain remains an important and disturbing problem in any plan for a tariff union. Logically, this manufacturing nation should make common cause with the Continent, if it ever came to an economic agreement. Moreover, the Continent needs access to the British Colonies as sources of raw materials and as outlets to expand its markets. But participation in an European tariff union would greatly complicate the intra-empire relationships of Great Britain.

9. *The elimination of excessive trade barriers.*— Such plans, attractive though they may seem from a theoretical point of view, are not likely to materialize very speedily. In the meanwhile, steps are being taken to do away with some of the most harmful trade restrictions, prohibitions, and discriminating measures. In Article 23 of the League of Nations Covenant this principle found expression. The member states are required to accord each other "equitable treatment." In the early stages of the peace negotiations, President Wilson's third point, "Removal of Economic Barriers," played a prominent part.

The wave of protectionism that followed the war was quite out of harmony with those principles. Attempts have been made, however, to put those principles more generally into practice.

The International Chamber of Commerce has

consistently examined the question, and has made recommendations for the removal of certain restrictions. The League of Nations, through its economic section and through a number of economic conferences, has contributed to calling the attention of the governments to such excessive barriers. All this activity has resulted in a gradual removal of unusual and prohibitive measures and in placing economic relations on a more equitable basis.

10. *Information regarding tariffs.*—The trader must familiarize himself thoroughly with the tariff law and the administrative feature of the tariff of the country to which he expects to export. Kelly's "Customs Tariffs of the World" until recently could be depended upon to give such information regarding all countries of the world. This publication, which was annual, has unfortunately been interrupted since 1928, and until it is again resumed other sources of information must be found.

The United States Department of Commerce, in Washington, maintains in its Bureau of Foreign and Domestic Commerce an information office on all matters pertaining to foreign trade that does not have its equal in any other country. This bureau is prepared to give information regarding import duties and regulations and duties in foreign countries, and to assist exporters in many other ways to obtain the information they require. Some knowledge of tariff systems and the various kinds of duties which are commonly levied will be helpful in guiding

the exporter in the search for specific information, and in interpreting the information when it is received.

11. *Tariff systems.*—As has been pointed out, many countries use their tariff regulations as a means of obtaining concessions for their merchants from other states. Such a tariff, which is constantly subject to change as a result of treaties or conventions, is called a "conventional and autonomous" tariff. Obviously, an exporter must be forever on the watch lest some concession secured by another nation place his trade rivals in a better position in any given market. This is notably the case in Japan and Italy. Such tariffs are sometimes called "bargaining tariffs."

The United States has followed a different system, and has adhered to the strictly "autonomous" system, making almost no use of the bargaining or concessional method so generally used in Europe.

12. *Multiple systems.*—One serious drawback to the conventional system is that the executive power can change at any time, for the sake of diplomatic expediency, an existing rate to which commercial interests have adjusted themselves. In order to limit the extent to which the executive power may go in lowering rates, while yet allowing a considerable degree of bargaining power, the "multiple" system has been devised.

A good example is found in the Canadian tariff. In this tariff three rates are indicated for each com-

modity listed. The lowest applies to the importations from the United Kingdom and from some of the dominions and colonies. This is called the British Preferential Tariff. The second or Intermediate Tariff applies to goods imported from countries with which Canada has entered into concessional agreements. The third group of rates, the highest of them all, applies to all other commodities.

13. *Specific and ad valorem duties.*—In calculating the tax to be levied upon importation of various kinds of merchandise, two general methods may be followed. The import duty may be stated in each specific instance. The tariff may read: 20 francs per 100 kilograms, or 100 francs for each article. Such a duty would be called a specific duty.

Another method of arriving at the amount of the duty is to express it in percentages of the value of the article. Such a duty would read: 10 per cent ad valorem, hence the name ad valorem duties.

It is a matter of considerable interest to the exporter to know the method used in assessing duties, for the method of administration may affect his method of shipping, packing, and invoicing.

14. *Ad valorem duties in practice.*—Where the ad valorem method of calculating import duties is used, great importance is necessarily attached to the method of arriving at the value of the goods. As will be explained in Chapter XVIII on importing, a combination of two methods is commonly used. The

declaration of the exporter or importer is used as a basis, and the appraisal of government officials is used to control the original declaration.

Not all countries interpret value in the same manner. Some, as in the case of the United States, take the "foreign value or the export value" as the basis, and export value is defined as the "market value or the price, at the time of exportation . . . plus the cost of all containers and all other costs, charges and expenses incident to placing the merchandise in condition, packed ready for shipment to the United States."

But this is by no means the generally accepted definition. Value is variously interpreted as cost of production, wholesale value in the exporting country, landed value in the importing country, or the price of the goods in the wholesale market in the importing country. In some countries like Paraguay, Morocco, and Egypt an official value is established for the various groups or classes of merchandise. This value may or may not correspond with the actual value of the goods.

The advantage of the ad valorem system is that a more expensive article carries a higher duty than a less expensive one. This is as it should be, for in all probability the more expensive article can and should bear a higher duty.

But there is a corresponding disadvantage. The determination of value or price is a rather complicated matter requiring the services of experts. Gov-

ernments using this method are therefore compelled to employ a large staff of appraisers and also to carry on investigations abroad to keep abreast of changes in prices occurring in the exporting countries.

Where a "scientific" tariff is desired, that is, a tariff adjusted as far as possible to the needs of industry, the ad valorem system seems to hold out decided advantages. By means of this system it is also possible to cover all articles not enumerated in the tariff itself by a blanket rate of say, 10 per cent ad valorem on all raw materials and 25 per cent ad valorem on all manufactured articles. If, then, certain articles are to be allowed free entry, a "free list" may be drawn up containing these few products subject to exceptional treatment.

15. *Specific duties in practice.*—From what has been said it might appear that specific duties were much simpler in their administration. But this simplicity is only apparent.

Let us assume that we wish to ascertain the amount of the duty to be paid upon a gold watch imported into a country where the specific system is used. At once we would be faced with the problem that, for obvious reasons, a cheap watch of nickel could not be taxed as heavily as an expensive gold watch. While under the ad valorem system a given percentage of the value would take care of this situation, the tariff based upon specific rates must carefully differentiate between all the various characteristics of watches that make one more expensive than another.

This means not only that the tariff becomes extremely cumbersome, but also that—since tariff makers are not omniscient—many articles will be imported which are not described in detail in the tariff, and for which therefore no legal rate of duty can be discovered in the tariff. Such a situation exists in the case of typewriters imported into Mexico. One will search in vain for any mention of typewriters in the Mexican tariff. There is mention made of machines for the reproduction of writing, and elsewhere of machines for printing, but neither description fits the article in question.

What can be done to determine how much duty should be paid in such a case? In most specific tariffs the clause appears that under such circumstances "the principle of similarity" shall apply. By this it is meant that the article is to be taxed in the same manner as the article which it most nearly resembles.

It need not be pointed out what a profitable source for differences of opinion, and not infrequently for influencing that opinion, is found in such a regulation. At the same time, it is not uncommonly found that a small change in the make-up of the article to be marketed may bring it under a different classification, or in a different group within a given class, thus resulting in more favorable treatment.

16. *Unusual duties.*—The foreign trader will from time to time meet with duties arising from local conditions. One of these is the "transit duty." The

South African Union tariff charges a transit duty on all goods that go to countries outside the tariff union. Russia formerly had transit duties on trade with Persia.

In order to aid the shipping industry, some countries levy a special tax on goods imported in ships navigating under a foreign flag. This is called the *surtax de pavillon.* This tax is found in France, Spain, and the United States. Our tariff acts impose an additional 10 per cent duty in such cases. This provision does not apply to ships flying the flags of nations with whom we have treaties according them the same treatment as American vessels. Since such treaties exist with practically every civilized nation, that section of the law is almost meaningless. It has served, however, to give the government bargaining power with other nations.

Similar in purpose is the *surtax d'entrepot,* a surcharge levied upon goods which enter a country not directly from the country of origin, but by way of some other country. A strange situation developed in the relations between France and Belgium as a result of the fact that this tax forms part of the French tariff law.

Many of the products imported into Alsace-Lorraine pass through the port of Antwerp. When these provinces were a part of Germany everything went smoothly. But when Alsace-Lorraine again became part of France, and therefore subject to the French tariff law, the *surtax d'entrepot* began to

apply. Belgium protested against thus having its transit trade with the countries of the upper Rhine placed under a very substantial handicap, and finally succeeded in persuading its former ally to make an exception in this case.

17. *Anti-dumping duties.*—A special duty, more and more commonly found, is the "anti-dumping" duty. As before explained, a concern can afford to sell its product at cost, or even slightly below cost, in the foreign market if the larger output thereby made possible permits it to bring down the unit cost of the product through a wider distribution of the overhead. The manufacturers of the invaded country often find it impossible to compete and will appeal to their government for protection.

The anti-dumping duty which is assessed in such cases is now found in many countries. Canada levies a duty on the article, equal to the difference in selling price for home consumption in the foreign market and for export. Similar provisions are found in the Union of South Africa, Australia, and other countries.

Where such anti-dumping duties exist, articles imported must always be accompanied by an anti-dumping certificate in which the owner of the goods declares that they are being sold for export at prices not lower than those charged in the ordinary course of trade in the domestic wholesale market.

18. *Import prohibition.*—Although not so common as formerly, import prohibitions are found in

many countries. They generally affect only a few classes of articles and usually have some moral or hygienic object or reasons of state in view. In the United States, the president may, by proclamation, suspend the importation of articles that he regards as dangerous to the public health and welfare.

All articles, the trade in which is prohibited within the country, will fall under such import prohibitions. In the United States, alcoholic beverages are thus excluded, as are also certain drugs and all articles that do not conform to the pure food and drug law.

Wherever state monopolies exist importation by private persons is forbidden of all articles that form the objects of monopolies. In France, tobacco, cigars and matches are sold by governmental agencies, and their importation by private persons prohibited. In Russia, where at present all foreign trade is a governmental monopoly, all trade, except through the governmental agency is prohibited. In Spain, religious books, and other articles of a distinctly religious nature, are permitted to be imported only by "authorized persons."

In Anglo-Saxon countries we commonly find a prohibition on "indecent and obscene prints, paintings, photographs, books, cards, lithographs, or other engravings, or any obscene or indecent articles." This prohibition, found in England and many of the dominions, is also found in the United States, where even lottery tickets are prevented from entering the country. It is not difficult to see that, laudable though

the intention may be of such prohibitions, the extreme latitude that must be allowed in their interpretation may render them dangerous in the hands of ignorant or unscrupulous persons.

The provisions that no indecent books may be imported also may lead to situations not intended by the framers of the provision. Many classics in English and other languages could easily be affected by this provision if the interpretation were left in the hands of some persons lacking in judgment, or possessed with an overdeveloped sense of modesty.

The power to exclude food not conforming to the standards of the local law is the undisputed right of a sovereign state, but it places a tremendous power in the hands of those who are to determine how far certain articles do, or do not, conform to the law.

19. *Anti-trust law.*—Quite the opposite from the intention of the anti-dumping duties is that of a provision in the Canadian law which allows for a reduction in the duty on any article in regard to which "there exists any conspiracy, combination, agreement, or arrangement of any kind" in the Dominion at the expense of the consumer. In such cases the government may take the extreme step of allowing the article to enter free of duty.

20. *Export duties.*—Export duties are found infrequently. They usually occur where the country has, to some degree, a monopoly in a trade or product. Chile has an export duty on nitrates, Spain one on cork, Bolivia on all metals and ores. Some-

times the export duty is an attempt to protect a national monopoly. Formerly an export duty of five pounds was charged in South Africa on ostrich eggs, and one of one hundred pounds on ostriches.

In recent years many instances have attracted public attention where export duties were charged on raw materials in order to influence thereby the prices at which the product could be purchased in the world markets. Another objective of such a plan has been to accumulate a fund to be used in purchasing a sufficient quantity of the products to allow a large measure of manipulation of market prices, to the benefit of the producer. Such instances will be treated more in detail in the chapter dealing with the raw material situation.

REVIEW

Give some of the factors that justify the establishing of trade barriers.

Explain what effect commercial treaties with the "most-favored-nation" clause will have upon tariff restrictions.

Discuss the advantages and disadvantages of a European tariff union to the countries of Europe.

Explain the purpose of the "multiple system" of tariffs.

Enumerate the advantages, from the point of view of the administration of the customs service, of ad valorem and specific rates.

State some of the more important types of import prohibitions.

CHAPTER IV

GOVERNMENTAL TRADE PROMOTION

1. *Various methods of promoting foreign trade.*—The promotion of foreign trade may be carried on by private enterprise, or by governmental agencies. In the present chapter the various activities by means of which governments promote the expansion of the foreign trade of their nationals will be examined.

2. *Measures affecting cost of production.*—One of the penalties of the protective tariff lies in the increased cost of production to domestic manufacturers—a condition which may greatly affect their competitive power in foreign markets. This increased cost of production may result directly from the increase in price of raw materials or machinery imported, or indirectly from the increase in the general level of prices which results from protection.

Against the latter increase no remedy can very well be provided. Only increased efficiency in production can overcome it, as, indeed, in many American enterprises it is being overcome. The former situation can, however, be remedied, at least in part, and governments make use of a variety of measures to accomplish this objective.

The manufacturer producing for the domestic

market is affected by a tariff on the materials that enter into the articles manufactured. He may find that foreign producers, not thus handicapped, can undersell him in his own market, notwithstanding a fairly high import duty on the manufactured goods.

This situation is met by a set of compensatory duties raising the duty on the manufactured articles sufficiently to offset this disadvantage. The disadvantage is felt even more keenly by the manufacturer producing for export. The measures devised to assist him all take the form of freeing him in some way of the burden of import duties on the materials that are re-exported as part of the finished article.

3. *Drawbacks.*—Foremost among the measures is the "drawback" or restitution of the duty paid. The amount refunded is never the total amount paid; a deduction is always made for administrative expenses. The process of receiving a drawback is costly and time-consuming, so that for a considerable period of time the amount of the duty paid is tied up, with resulting loss of interest. The burden, therefore, is removed only in part.

There are other disadvantages to this method. In the first place, the number of articles to which a drawback applies is usually limited. In the second place, in those cases where the imported materials are not re-exported in their original form, but are used in the further manufacture of finished articles for export, it may be often quite impossible to determine whether the material contained in the articles is of

foreign or of domestic origin. The only way in which this separation can be made is by careful supervision of the process of production by government inspectors and by an examination of the books of the concern.

Production may then be placed under government supervision, step by step, foreman and company officials may be placed under oath and bonded, and when finally the articles are shipped, the refund can be withheld until proof has been produced that the goods were actually landed on a foreign shore. All this effort means additional expense and, above all, delay. Coupled with the trouble and delay of clearing the goods when exported, the method of drawback can be said to be only awkward, expensive and time-consuming.

The procedure in the United States is so complicated that large manufacturers maintain a special group of experts to coöperate with the governmental officials in checking the items entitled to drawback, an expense which small manufacturers cannot very well take on. Many producers therefore find it not worth while to bother with the drawback at all.

Drawback provisions are found in most tariffs. As a rule, a drawback is used only in case the articles manufactured from materials upon which duty has been paid are exported. There are, however, some cases where the drawback becomes available when the goods are sold in the home market. In Canada a drawback of 99 per cent of the duties paid is al-

lowed upon exportation, but on a few articles, such as silk cloth, a drawback may be claimed if they are used in the production of certain articles intended for home consumption.

In Italy and France, the laws of "temporary importation and exportation," or "temporary admission," provide also for cases where partly finished goods, such as silks and linens, are exported or imported to undergo a finishing process, thereupon to return to the original owners. Such goods are not required to pay an import duty, but this special privilege is reserved for specially licensed merchants.

By refunding an amount in excess of the original duties paid, a government may give a bounty or subsidy to those exporting certain goods selected for this special treatment. The use of bounties is frowned upon by all governments, however, as a practice to be listed under the heading "unfair competition," and inviting retaliatory measures.

In not a few instances bounties are granted without publicly acknowledging the fact. When the Brussels sugar convention of 1902 had declared against bounties upon the exportation of sugar, it was thought that the matter had been settled once for all, but many countries found a way out through the drawback system.

In Germany the sugar tax was levied on the beets according to the weight of the beets. The tax was calculated on the assumption that a given quantity of beets would produce a certain quantity of sugar.

The tax was then refunded upon the exportation of that quantity of refined sugar. It is clear that any improvement in the quality of the beets or of the manufacturing process resulted in a larger net yield of refined sugar per pound of beets. The drawback granted on each pound of sugar on the basis of the old calculation became, therefore, a hidden bounty, being in excess of the amount originally paid in taxes.

4. *Bonded warehouses.*—The bonded warehouse is another method provided to enable the merchant to escape the effect of customs duties. These warehouses offer an opportunity to postpone the payment of duties until the goods are actually released for home consumption. Goods which are re-exported never pay duty at all, but pass out of the bonded warehouse into the vessel. Two classes of bonded warehouses are generally recognized, government bonded warehouses, and privately owned and operated warehouses which are under government supervision.

In the United States bonded warehouses may be classified as follows: government warehouses, private warehouses belonging to importers, private warehouses for general use; private warehouses for special articles such as sugar and coal; grain elevators; private warehouses for the manufacture and exportation of goods made wholly, or in part, from imported goods, or of goods subject to internal revenue; and finally, warehouses for imported ores to be

refined and re-exported. The use of the bonded warehouse is not as highly developed in this country as it is abroad. This condition probably is due to the fact that the United States has not developed a large reshipment trade.

In Europe, on the other hand, where distances are shorter, the reshipment trade assumes much larger relative proportions. The warehouses are used as convenient distribution centers, and since in most cases, notably in Germany, repacking, assembling, and labeling may take place in these warehouses without restriction, it becomes possible for the exporters to attach their own identification marks, thereby keeping the origin of the goods unknown to the purchaser.

In France, bonded warehouses are maintained at all principal ports and several border railroad centers, as well as at interior points. In Paris, a large system of warehouses is maintained by the Compagnie des Entrepots et Magasins Généraux de Paris, which also owns unloading and loading facilities on various canals and railroads near the city. By no means the least important is the service which the company furnishes. All loading and unloading, packing and clearing are done by the company for the patrons, if they so desire.

The company uses two receipts, the *recepisse à ordre* and the *bulletin*. This latter corresponds to our warehouse receipts and the "warrant" of the English bonded warehouses, and may be used as col-

lateral at the banks. Banks in Paris will sometimes lend as much as 60 per cent of the value of the goods on these bulletins.

The amount of the loan is endorsed on the other document, which now circulates freely, and is a negotiable instrument by means of which the ownership of the goods may be transferred. Delivery will, of course, be made by the warehouse only upon presentation of both documents, or upon presentation of the *recepisse* after a deposit has been made equal to the loan and accumulated interest.

Warehouses of this kind are not used very much by American firms, though large quantities of farm machinery and sugar have occasionally been stored there. European importers make a more general use of them. They have found that delivery may thus be expedited. The goods shipped in bond to Paris are allowed to pass the frontier without delay, and, once in Paris, are quickly cleared, while goods not so directed are frequently held up for long periods at the congested frontier customs house. Moreover, when using the interior bonded warehouse, the importer need not maintain a representative at the port or railway customs station. He can attend to the clearing himself at the interior port, or employ the warehouse company to perform this service for him.

The various bonded warehouses on the Continent render substantially the same type of services. The

period during which goods may be kept in warehouses is prescribed by law.

In France, the *entrepot reel* which is often maintained by municipalities and chambers of commerce, and is under very strict customs supervision, allows goods to remain for a period of five years. In the privately owned *entrepot fictif* intended for private use, one year is the maximum period. In Germany, the period is limited to five years, while in Great Britain no time limitation is placed upon the storage of goods in these warehouses.

The business of warehousing in Great Britain is almost entirely in the hands of private persons. In Liverpool, the Mersey Docks and Harbor Board, a public trust created by special act of Parliament, is in charge of the administration of these facilities.

In the Latin American countries the bonded warehouses are infrequent. In Bahia, Brazil, both the federal government and the state government maintain ordinary storage warehouses. The Central Bank of Mexico City, the Mercantile Bank of Vera Cruz, and the Anglo-Mexican Banking Company jointly through a subsidiary company will, among other functions, perform that of storing "national and foreign merchandise." The fact that very little, if any, reshipment trade has been developed in South American commerce, and that in many countries foreign goods, the appearance of which has been in the slightest degree changed, are considered to have been

"nationalized," and then become often subject to an export tax upon re-exportation, are factors which probably account for the absence of bonded warehouses.

5. *Free zones.*—The free zone or bonded district is an extension of the idea of bonded warehouses. It may be an entire port which is so set aside, or a section of a port placed outside of the customs territory of the country. Ships may pass into the bonded district without being delayed by customs formalities. This plan constitutes a great saving of time. Reshipment, storing, and manufacturing may take place within the zone without involving a payment of duties. As soon, however, as goods pass out of the free zone into the customs territory, duties must be paid.

Free ports are found in Hamburg, Bremen, Copenhagen, Trieste, Hongkong, and Singapore. In recent years many new free ports have been created. Oslo, Malmo, Helsingfors, Barcelona, and Cadiz were added to the list of free ports in the past ten years.

In England, a special committee of the Association of Chambers of Commerce of the United Kingdom was appointed in 1918 to investigate the establishing of free ports in the British Isles, but nothing was accomplished. This is not surprising. A free port has very little reason for existence, except where a high tariff affecting a large group of products handicaps the trader who may wish to re-export foreign

articles in the original or in a manufactured form. Great Britian's tariff is not high nor inclusive enough to make the development of free ports advisable.

The question of free ports in the United States has been discussed in commercial circles for many years. The Merchants' Association in New York advocated the creation of one in New York. Seattle and other Pacific coast ports put in their claims for similar privileges. A National Free Zone Association was formed in 1919 and was instrumental in having a bill introduced in Congress to authorize the creation of free zones.

In Canada a public movement was started about the same time for a measure to authorize the establishing of free zones at any Canadian port which may apply for the privilege.

In neither country has any definite legislative action been taken. The advocates of these measures have frequently overlooked certain fundamental facts. They have been impressed, and rightly so, with the commercial development which followed the establishment of such free zones in most European ports, but they have failed to take into account the peculiar geographic conditions which exist abroad. Hamburg and Bremen are great reshipment centers because they are connected by means of large and well managed steamship services with far distant points, while at the same time they are served by a numerous fleet of small coast steamers connecting them with ports in the surrounding countries. These

near-by ports, many of them too unimportant to maintain transoceanic connections, are much more economically served by that type of service. But this service would be extremely costly if it were not that the free ports eliminate customs duties and formalities from the calculation.

This condition is not duplicated on the American continent. Goods landed in New York may be intended for reshipment to other, smaller ports, but almost all these ports will be in the same customs territory as the City of New York. Goods intended for South American countries or Canadian ports can find excellent steamship connections from Europe or China to the ports of those countries which form their final destination.

It is also not impossible that any legislation allowing the establishing of free zones in some of the most important ports will be found to be unconstitutional, since it may be found to conflict with the "preference" and "uniformity" clauses of Sections 8 and 9 of Article I of the Constitution.

The argument that free zones would undermine the American tariff does not seem to have much force, for in these free zones manufacturing would take place for export only. It would never pay to produce goods to be imported in the United States. Such goods would be considered "foreign" and would be subject to customs duties on that basis. These duties would far exceed those that would have been

levied upon the foreign material of which the finished goods are composed.

6. *Export bounties.*—Direct payments to exporters in the form of export bounties are not frequent at present. Alexander Hamilton advocated this method of encouraging foreign trade, but no direct bounties have ever been paid in the United States.

Prior to the nineteenth century such bounties were commonly found. The Irish linen industry, the silk industry of France, Italy, and Japan, the steel, whale oil and preserved fish industries of Australia have all been supported at one time by such subsidies. Canada has paid bounties on the production of iron and steel products, and on Manila hemp, but not many of those products found their way into foreign markets, so, strictly speaking, these bounties cannot be regarded as export bounties.

The export debenture plan, which at one time formed a part of the proposed farm relief legislation in the United States, would have worked, in practice, in the same manner as an export bounty on the agricultural products affected. The debenture, which it was planned to issue to exporters of selected products, was to be accepted by the customs authorities in payment of import duties on certain manufactured articles subject to high duties.

There is nothing new in this proposal. Some European countries have had similar systems in operation for years. But the great difference be-

tween the proposed American scheme and its European prototype was that America has a net export balance of agricultural products and the European countries that have used the system all have a net import balance. Every bushel of wheat exported from eastern Germany to some foreign country must be replaced by the importation of wheat from some other part of the world. There was, therefore, no loss of revenue to the government and no wholesale dumping of German wheat upon the world's markets.

The sugar industry has been the subject of more bounties of various kinds than perhaps any other single industry. The competition between beet sugar and cane sugar, and the desire of countries not possessing colonies to produce a domestic supply of this product that annually represented an enormous tribute paid to foreign colonial possessions, played a part in placing this industry under the special care of the governments. As a result of the export bounties and the internal taxes levied upon the producers of sugar for fiscal purposes, the anomalous situation arose that sugar was cheapest in those countries where it was not produced.

The Brussels convention agreement was renewed from time to time until the war virtually put an end to this situation. During and since the war many countries have withdrawn from the convention which at present is inoperative.

National groups of producers have from time to time granted bounties to their members upon the ex-

portation of products. These bounties will be discussed later in connection with the development of the Cartel movement in Europe.

In most countries, the executive branch of the government is empowered to take such measures as may be thought necessary to protect the domestic producers against the unfair competition of foreign producers who receive a subsidy to enable them to undersell others. In England and the United States, the government may increase the duty on imported articles upon which bounties have been paid, by the amount of the bounty. Similar legislation is found in India, Switzerland, Spain, Japan, Portugal, New Zealand, Belgium, and many other countries.

7. *Transportation rates on exports.*—Another method of giving indirect support to exporters is found in special transportation rates upon the railroads of a country, applying to goods intended for export.

In the United States, preferential export rates are allowed by the Merchant Marine Act of 1920. In Germany, the practice was quite common before the war. Low railroad rates assisted the German coal exporters to compete with British coal in the world market. The intention was not always to give support to exporters, but was frequently also to encourage shipment by certain ports. This was the case not only in Germany but also in Belgium, France, and Italy.

The Canadian rate situation is greatly affected by

the potential or actual competition of the American railroads. The Board of Railway Commissioners of Canada allows the railroads to quote special export rates. In so doing, Canada is merely following the example of Great Britain, Australia, and South Africa, where preferential export rates are also found.

8. *Trade information services.*—In practically all commercial nations the government assists its exporters in obtaining accurate and timely information concerning conditions in foreign markets. Under ordinary circumstances, it could hardly be considered a true function of the government to undertake the selling of a particular article for a private enterprise. The collecting of information that is available to all merchants who can satisfy the government with respect to certain minimum requirements of nationality and business integrity can, on the other hand, be considered to be the most suitable method for a government to adopt to promote trade expansion. No individual or private concern of moderate size could possibly afford to undertake the collecting of such information for its own use.

The forms that these information services have taken in the different countries differ only in details. But it is of interest to examine comparatively some of the most important services available to the citizens of the United States and other countries.

9. *Consular service.*—The oldest of these services is the consular service. In fact, consuls or commer-

cial representatives existed long before permanent resident diplomatic representatives were appointed.

The consul originally was a judge appointed by his home government to administer justice among his nationals residing abroad. This function was an outgrowth of the generally accepted concept that the law of a country was not restricted to its territory, but adhered to the person of its citizens. The principle is called the principle of extraterritoriality. An Italian, it was thought, wherever he might be, should be judged in all cases in which Italians were involved, by the law of Italy.

This concept has since been abandoned, except in the dealings of the western countries with some of the countries of the Orient. China, Japan, Turkey, and other countries of the East, differing greatly in the method of administering justice from the western countries, were at one time forced to allow the privilege of extraterritoriality to citizens of the western nations. Turkey and Japan no longer grant this privilege, and China in recent years has served notice upon the world that the western nations will before long have to abandon these privileges.

Where extraterritorial privileges are enjoyed, the consuls are called upon to serve in the capacity of judge, or at least as legal adviser of the local courts. But elsewhere the consul no longer performs these duties.

10. *Duties of the consul.*—Other duties have taken the place of the function thus removed. Modern

consuls can exercise the duties of their office only on the basis of a consular treaty existing between the two states involved.

This restriction is important, for sometimes a consul may be called upon to perform some service which under the treaty he cannot legally perform. In some countries the collecting of testimony under oath is placed exclusively in the hands of the local courts. It would therefore be illegal for a foreign consul to undertake to collect such evidence.

In the performance of his ordinary duties a consul is not likely to come into conflict with the local law. His principal duties are described in the following sections.

11. *His relationship to the customs revenue.*—Consular invoices accompany most goods shipped in foreign trade. These invoices are prepared and signed in the presence of the consul of the country to which the goods are being shipped. They serve as official evidence of the owner's declaration of value. A nominal fee is charged for this service. In a few countries the fee is expressed in percentages of the invoice value of the goods. In that case the fee constitutes in fact a flat ad valorem duty upon imports. American goods that are returned to the United States may enter free of duty, but they must be accompanied by an "invoice of returned American goods," certified by a consul.

Another document that needs the consul's certificate is the "landing certificate." This document must

be produced in the case of goods exported under bond before the United States government will release the bond.

12. *Protecting the health of the nation.*—The consul performs many duties that are related to the enforcement of the laws of his country intended to protect the public health. He issues, after investigation, certificates of disinfection for merchandise, special certificates testifying to the composition of drugs and food products, and finally issues the ship's bill of health, without which no vessel may enter American ports.

13. *Other duties.*—In addition to the duties already enumerated, the consul looks after the interests of American vessels and sailors, superintends the embarkation and medical inspection of immigrants in many of the larger European ports, visés passports, protects the life and property of citizens living abroad, and administers the estates of those dying intestate. To these functions must be added the making of investigations regarding trade conditions abroad, the results of which are embodied in periodic reports to the home government.

14. *The work of the Department of Commerce.*—It is not difficult to see that, because of all the various duties a consul must perform in the service of the various governmental activities, he cannot give a great deal of attention to the collecting of strictly trade information. He is, and remains, a part of that department of the government which is in charge of

maintaining relations with other governments. Although the consul, as such, does not act and is not recognized as a diplomatic representative, his primary function is not to coöperate with private enterprise in the promotion of special marketing campaigns.

The line cannot be sharply drawn, but in most countries another department of the government, usually known under a name corresponding to that of the United States Department of Commerce, and charged more specifically with the promotion of commerce, has established foreign information offices which are more fitted to serve the needs of business.

In the United States a strictly commercial service has been organized by the Bureau of Foreign and Domestic Commerce, a division of the Department of Commerce. This service is generally regarded abroad as the most efficient of its kind. It has no other purpose but to promote American business abroad. No exporter should neglect to familiarize himself thoroughly with the assistance this service can give him. It will mean a great saving of effort and will guard against an unwise expenditure of cash.

15. *The organization of the Bureau of Foreign and Domestic Commerce.*—The collecting of foreign information is largely in the hands of commercial attachés and trade commissioners stationed in the most important trade centers in the world. These foreign offices, which now number 59, also assist exporters in securing distribution and agencies abroad,

in adjusting trade disputes between American shippers and foreign customers, and in keeping a display of catalogs and price lists of American firms.

To establish closer relations with American business, 29 district offices and 39 coöperative offices are maintained in this country. The coöperative offices are organized in coöperation with the local chamber of commerce in cities not large enough to justify the establishment of a district office. The information collected abroad and supplemented by the work of the central office in Washington is made available to American business men through these branch offices and through the many publications of the Bureau.

16. *The publications of the Bureau.*—The Bureau's publications may be divided into two classes, periodical and special. Among the periodical publications is, first of all, the *Commerce Reports.* This is a weekly journal of 64 pages. In recent years the appearance and contents of the journal have greatly changed, until to-day it has all the appearance of a technical trade journal, and none of the earmarks which too often characterize the government publications. Divided, as is the central office in Washington, on the basis of commodities and major geographical groups, it offers in clearly written and practical form a wealth of current information.

The "Commerce Year Book," appearing annually, states and analyzes the outstanding facts of commerce, and important changes at home and abroad. The *Monthly Summary of the Foreign Commerce of*

the United States and the publication entitled "Foreign Commerce and Navigation of the United States," respectively monthly and annual, contain statistics of foreign trade and shipping.

The special bulletins cover a wide variety of subjects, but they may be classified under the following headings: Trade Promotion Series, Trade Information Bulletins, and Domestic Commerce Series dealing with domestic marketing problems.

All these publications can be obtained at very slight cost from the Bureau of Foreign and Domestic Commerce in Washington or from any of the district offices.

17. *Other services available to exporters.*—The Commercial Intelligence Division has on file a list of names and addresses of foreign concerns that are interested in purchasing American goods.

These addresses and other confidential information are available to all American merchants and manufacturers whose names have been placed, at their request, upon the "Exporters' Index." Before his name is so listed the Bureau requires information concerning the merchant. Once he is admitted to this list, many other special services are available to him.

Information regarding foreign tariffs, commercial laws of foreign countries, the issue and sale of foreign securities, transportation facilities, and methods of packing export shipments, and other items of information of an equally practical nature are available to

the business man upon application to any of the district offices.

18. *Similar services in other countries.*—After the close of the war the need for trade information was exceptionally great, because not only was it necessary to reëstablish commercial connections, but many new countries had developed during the period of relative isolation. Moreover, overproduction was a generally prevalent malady, and relief was sought in the opening up of new markets. These conditions led to the reorganization of many of the governmental trade information services.

Great Britain established in 1917 the Department of Overseas Trade, which is directed jointly by the Foreign Offices and the Boards of Trade. The entire foreign commercial service is thus coördinated into one "commercial diplomatic service."

Under its direction are the following commercial representatives: trade commissions within the Empire; commercial counsellors and commercial secretaries attached to the various diplomatic missions; and the consuls with respect to their commercial intelligence work. The information thus collected is published in the *Board of Trade Journal* and in the Diplomatic and Consular Report.

Much attention has been given of late to the promotion of intraempire trade. In order to promote the sale of Empire products in the United Kingdom the Empire Marketing Board was created, with an annual appropriation of approximately $5,000,000.

to which Canada and the other dominions contribute various amounts. The dominions and colonies maintain buying offices not only in England but also in other dominions.

Canada created a Department of Trade and Commerce in 1892, and at present maintains commercial offices in London, Liverpool, Bristol, Glasgow and Dublin, in some of the Central American states, in the other dominions, and in many countries of Asia and the European continent. In 1921, a trade commissioner was appointed to look after the interests of Canadian trade in New York.

The information is distributed through a weekly journal, the *Commercial Intelligence Journal*, and through a large number of special reports and handbooks. Many of these publications, although prepared for the Canadian trade, contain valuable information from American exporters as well. They often deal with general trade conditions in foreign countries such as China, Russia, and British India. In the same way, the American publications will often prove of great value to Canadian firms.

The trade opportunities service is available only to Canadian firms, but others interested in trade with Canada will always find the offices of the trade commissioners ready to supply them with information, and to bring them in touch with reliable Canadian firms.

19. *Government assistance in foreign credits.*— The above services are all of such a general nature

that they seem to fall without question within the scope of government activity. This cannot be said with the same assurance of another phase of governmental trade promotion that has been developed in the last few years.

It would seem that the risk entailed in financing individual transactions, like any other strictly commercial risk, is distinctly a matter of private enterprise. The difficulties encountered in securing adequate financial aid from the established banking institutions, and the excessive risks involved in financing what normally would be considered entirely legitimate and safe transactions, have led many governments to organize special foreign credit services for exporters, in which the government undertakes to bear at least a portion of the risk.

The Exports Credit Department of the Board of Trade of Great Britain, which was organized in 1921, is authorized to guarantee bills drawn against approved foreign shipments of goods manufactured in Great Britain, up to 85 per cent of the cost of the goods. In Holland, a similar credit insurance was inaugurated in 1923 by which the government covered 40 per cent of the invoice value of all satisfactory risks.

Germany instituted a credit insurance plan in 1926. As in all similar projects, the exporter is expected to shoulder a substantial part of the risk. This provision is a protective measure to guard against unwise foreign credits that otherwise would become too

attractive. In the German scheme the risks are divided into three groups. Group I includes the United States and Canada and some of the European countries. Group II comprises Danzig, Finland, Italy, Austria, Spain, Hungary, British South Africa, and a number of South American countries. In Group III are included principally Central America, Asia, Australia, Turkey and the Baltic States. The percentage of risk that the exporter must assume differs in each group, and varies from 20 per cent in Group I, to 33⅓ per cent in Group III.

Besides assisting thus in the securing and insuring of short-time commercial credit, some countries have also organized plans for assisting their investors in placing long-time investment loans, which will result in the demand for the products of the country extending these loans. Under the British Trade Facilities Act, guarantees with respect to repayment of principal and of interest were thus granted to the amount of $365,000,000 for the period of 1921–1927. No new guarantees have been granted since 1927, but the contracts outstanding and thus protected will not be liquidated for some thirty years from their inception.

In general, it may be said that such activities on the part of the government should be looked upon as in the nature of emergency measures. The success of these schemes has been limited, and no great expansion of such activities need be looked for in the future.

REVIEW

Explain how the drawback system may operate as a method of granting secret bounties.

State the advantages of the bonded warehouse and the limitations on its use in the United States.

State your opinion with respect to the practicability of establishing a system of free ports in the United States.

Enumerate the various sources of trade information provided by the government of the United States.

Make a list of the various duties of a consul.

Explain some of the features of governmental credit insurance that seem to make it of doubtful value.

CHAPTER V

PRIVATE TRADE PROMOTION

1. *American and English chambers of commerce.*—The promotion of foreign commerce has received the attention of many American chambers of commerce and commercial bodies. The Chicago Association of Commerce, for example, aids its members in establishing agencies abroad, and also by bringing them in touch locally with visiting foreign buyers. Bulletins and circular letters are issued at frequent intervals, containing valuable information in regard to general market conditions, tariff changes, and other relevant matters. The association maintained for five years a branch office in Buenos Aires, in charge of an experienced representative, who submitted reports on business conditions, and spent more than one-half of his time in travel, advertising the products of the members. Later, the work was turned over to the American commercial attaché. The association still answers questions of members concerning ocean freight rates, sailing dates, methods of packing, and similar subjects.

2. *Tendency toward centralization.*—The American type of chamber of commerce is a purely private undertaking. It is often only one, and not always

the most important, of several commercial associations in the same locality. In some cities the Young Men's Business League, or some similar organization, is gradually absorbing the functions of too conservative chambers of commerce. This type of organization is called the English type of chamber of commerce. It is found also in Belgium, Switzerland, Sweden, and in most countries outside of Europe.

The establishing of branch offices of the Bureau of Foreign and Domestic Commerce in chambers of commerce in the United States is a step in the direction of bringing about a closer relationship between the business world and government trade-promoting agencies.

In the United Kingdom, which boasts 125 chambers of commerce, the tendency has been toward greater official recognition of these organizations. A large degree of centralization is also secured through the work of the Association of Chambers of Commerce in the United Kingdom, which discusses questions of trade, collects and disseminates information, petitions Parliament on questions of trade, manufacturing and shipping, prepares bills dealing with these subjects, and protests against measures injurious to trade. It appears, however, that the government is still to a large degree indifferent to the practical business man's advice.

In the United States a similar central body exists in the Chamber of Commerce of the United States. This, like its British prototype, is an organization to

which chambers of commerce, trade organizations and individuals may belong, and which aims to become wholly representative of the business world, keeping close watch on all government activity that affects or may affect business, both at home and abroad. It publishes a monthly magazine, the *Nation's Business,* a weekly publication, *The Legislative Bulletin,* during sessions of Congress, and also a general bulletin that appears monthly. Important questions are submitted to a referendum vote. The Chamber unquestionably exerts considerable influence upon the attitude of Congress.

3. *The French type of chamber of commerce.*— Quite a different type of organization is the French type of chamber of commerce, found in France, Italy, Holland, Bulgaria, Roumania, Turkey, China, Japan, Brazil, Spain and, previous to the war, in Russia, Germany and Austria-Hungary. These organizations are semiofficial bodies established in accordance with the commercial code. They are entrusted with many functions that in this country are regarded as strictly governmental affairs.

Under the French law, every department must have at least one chamber of commerce. Every chamber of commerce is established only by permission of the Minister of Commerce, the municipal council, the department council, or in case a second chamber of commerce is desired in one department, the consent of the existing chamber of commerce must also be obtained.

The conditions of membership, the right to vote, and the right to hold office are regulated by law. The nature of the organization is made more evident by a statement of its purpose, which is first of all "to support and aid the government by advice and criticism and suggestions as far as commerce, industry and navigation are concerned." The chambers of commerce are given a large degree of authority over commerce courts, bonded warehouses, auctions, stock, produce-brokers and ship-brokers, exchanges, transportation rates, and the undertaking of public works.

The Paris Chamber of Commerce maintains the following undertakings: a library, testing plants for silk, wool, paper and ammunition, railroad and river terminal facilities, bonded warehouses, a college of commerce, a commercial high school with a four-year course and one with a two-year course, and evening classes in commercial subjects for men and women. It exercises supervision over the exchanges and appointment of brokers. It issues licenses for commercial travelers and certificates of origin for exports.

In the other countries above enumerated, the functions of the chambers of commerce bear the same official character, though the same scope of action is not found in every case. Centralization is frequently obtained, as in the case of the chambers of commerce of the English type, by a national organization. In Germany the Deutsche Handelstag represents the business interests of the country. In Belgium, this same purpose was served by the Fédération des Asso-

ciations Commerciales et Industrielles, in Brussels. One of Spain's preparations for after-the-war competition was a change from the English to the French type of chamber of commerce.

4. *Chambers of commerce abroad.*—Business men of the same nationality, located in a foreign country, frequently associate themselves in a chamber of commerce. Membership is not always restricted to such nationals. As a matter of fact, there are some "American" chambers of commerce abroad made up wholly of foreign importers interested in American business. Many a chamber of commerce has an international character, being frequently then called a general chamber of commerce. This kind is found in Hongkong, Singapore, Constantinople, Cairo, Manila and Havana, and many South American cities.

The French government has given encouragement and support to the movement and to some extent exercises control over such organizations. Where government support is given membership is restricted to French citizens.

England has about 100 such chambers in its colonies, and at least ten in foreign countries. In London, there are no less than eight foreign chambers of commerce, which have united in a Federation of Foreign Chambers of Commerce to look after their interests.

In the United States, many such bodies exist, among them the Spanish Chamber of Commerce of

New York, which is an official representative of the Spanish government; the Italian Chambers of Commerce, of New York, Chicago and San Francisco; the Norwegian-American Chamber of Commerce, formerly the American Norwegian Chamber of Commerce, of New York; the Compagnie de Dévelopment Commercial Franco-Belge des États Unis, of Chicago; the Holland-American Chamber of Commerce for the Pacific, of San Francisco; and the Mexican Chamber of Commerce in the United States.

Among the American chambers of commerce abroad, the following are prominent: the Chamber of Commerce for the Levant, in Constantinople, Athens and Salonica; the American-Export Chamber of Commerce, of Amsterdam; the American Belgium Chamber of Commerce, of Brussels; the American Chamber of Commerce, of Berlin; the American Chamber of Commerce, of Paris; the American Commercial Club, of Buenos Aires, besides many other similar organizations in Shanghai, Rio de Janeiro, Barcelona and Milan, and formerly in Petrograd and Moscow.

5. *Trade organizations.*—Besides the chambers of commerce promoting the interests of specific localities in foreign trade, there are trade or industrial associations looking after the welfare of certain lines of business. Among the more important of these in this country are the Interstate Cottonseed Crushers' Association, Inc., the New England Shoe and Leather Association, the National Lumber Export-

ers Association, the Oregon-Washington-California Coast Salmon Packers Association, and the National Implement and Vehicle Association.

A trade organization of a general character is the American Manufacturers' Export Association. This body organized the National Foreign Trade Convention, held in 1914, from which resulted the National Foreign Trade Council. This organization maintains an information service for its members in New York, and has correspondents in foreign countries. It supplies information, translates letters and catalogs, and assists in making collections abroad.

The Council, organized as a body which should "endeavor to coördinate the foreign trade activities of the nation," has an authorized maximum membership of fifty. Its function is investigatory and advisory. Reports on important questions are made from time to time, and yearly meetings are held, at which topics of national importance are discussed.

The National Association of Manufacturers is very active along foreign trade lines. Its monthly magazine, *American Industries,* devotes considerable attention to foreign trade matters.

The "American Trade Index" is a book containing the names of all the members of the association, with their addresses, and a short statement of the products handled by them. Frequent "market reports," published in pamphlet form, give information about conditions abroad; the "confidential bulletin," published semimonthly, gives a list of American goods for

which inquiries were received, with the name and address of the inquirer. A list of foreign business houses interested in any particular line of goods is furnished to members. The office makes translations, secures credit information from over 1,800 confidential correspondents, undertakes to collect overdue accounts, gives advice regarding patents and trademarks, tariffs, freight rates and general information useful to the commercial traveler entering a new field, and helps in organizing corporations of manufacturers for different export fields.

Many state-wide organizations perform approximately the same services within their limited areas. The Tennessee Manufacturers' Association and the Illinois Manufacturers' Association belong to this group.

6. *Trade organizations abroad.*—The most efficient foreign trade promotion work is performed in many countries by the trade organizations. In Germany, this national coöperation between industrial concerns, highly developed before the war, has gained greatly in importance since 1914.

Nearly every German manufacturer belongs to some association, which, in turn, is a member of a national association including all German industry, the Reichsverband der Deutschen Industrie, which in its present form dates from 1919. This association coöperates with the German consul in foreign countries in collecting information, and in many ways performs the services similar to those offered by the

Bureau of Foreign and Domestic Commerce in the United States.

The most important organization of this type in the British Empire is the Federation of British Industries. This association maintains commissioners and correspondents in the principal trade centers of the world, and collects and distributes information concerning the possibilities of marketing British goods abroad. It assists commercial travelers in every way possible, secures visas for passports, hotel and travel accommodations, and supplies letters of introduction.

At present the Federation maintains some 50 foreign offices. At every important exposition or trade fair the representatives of this organization carry on an active campaign attracting attention to the advantages of dealing with British concerns.

Organizations too numerous to mention are in existence in European countries. The Canadian Manufacturers' Association and the Export Association of Canada are of the same type. A new development is seen in the case of the Swedish General Export Union, which recently, in combination with the Swedish Chamber of Manufacturers, established a Central Committee for Swedish Export Industry. This new organization announces that its purpose is to advise the government in matters of tariff treaties, and in the obtaining of favorable terms from foreign governments.

7. *Banks as export promoters.*—The service of a

branch bank in a foreign country is twofold—banking proper and commercial service. In doing business with a foreign country, difficulties often arise over the closing of a transaction, the collection of drafts and the matter of shipments.

As a private institution, a bank can render a type of coöperative service that it would be unwise to expect from the government trade-promoting agencies. The manufacturer wants to know what can be sold, where, how and to whom, and when and how he is to be paid. To secure this information, the foreign branch bank must provide a costly service which is not necessary in domestic banking. This special service organization collects information of governmental, economic, financial and trade conditions, including federal and states statistics, and the condition of public and semi-public organizations.

Data must be gathered showing the condition of various lines of trade, and the opportunities existing for the expansion of United States commerce. A study of trade conditions must be made by competent investigators, the results of which are ultimately digested and sent to the home office for dissemination. These reports show for the article under investigation the imports and exports in good and bad years, sources of supply, stocks on hand, wholesale and retail prices, comparison of invoiced prices and freight charges of various countries, customs duties, terms of payment, manner of packing, and how business is conducted in the particular trade in question.

The branch bank can assist the American merchant in finding desirable buyers, furnish him a list of addresses of prospective customers, lines of goods handled and from where imported, number of employees, facilities for distribution, description of their places of business and of their salesrooms, display rooms and storage rooms.

Branch banks are also able to aid the traveling representative of United States exporters by furnishing them with information on the trade they represent, and with the names of buyers in good standing.

A feature of foreign branch bank service is to supply the exporter with names of resident merchants or jobbers who are willing to act as his representatives in the territory in which the branch bank is established. The supplying of such names requires familarity with the character and responsibility of the resident merchants, and calls for investigation and keen discernment on the part of the bank.

Information concerning the credit standing of foreign firms is often most efficiently furnished by such foreign branches of banks. A reliable, up-to-date and extensive credit file is one of the most valuable assets a bank can possess.

In order to get its share of foreign trade, the United States must supply a certain amount of capital for the development of those countries. In this connection, the foreign branch banks can play a foremost part by acting as observers of trade conditions

and directing investments in foreign fields into profitable channels.

Although, since 1914, American banks have extended their foreign connections very substantially it often causes surprise to see how much still needs to be done in this field before the American exporters and investors have at their disposal facilities comparable with those of other nations. As late as 1927 there were 65 branches of American banks in South and Central American republics. British and Canadian banks during that same year had 261 branches in Latin America. In Cuba, alone, their branches totaled 64, or only one less than the number of American branches in all of Latin America combined.

8. *Recent changes.*—Recently many changes in the banking world have taken place, all pointing toward an exploitation of the international banking field on a larger scale than ever before. The Hollandsche Bank voor Zuid Amerika, of Amsterdam, has opened branches in Rio de Janeiro and Buenos Aires. The English banks are increasing the number of their branches, especially in South America. The consolidation of the London County and Westminster Bank with Parr's Bank, both strongly intrenched with foreign connections, is merely one of the many consolidations taking place in that country. The British Trade Corporation, organized in 1917, "to provide financial facilities for trade after the war," with a capitalization of £10,000,000, is another

significant development; and the organization of the British Overseas Bank Association, comprising all the most important banks engaged in foreign transactions, is still another.

9. *Sample fairs.*—A recent development in foreign trade promotion is the opening in many parts of the world of "sample fairs." A sample fair is not an exposition, for it appeals primarily to the business man rather than to the public. It may be national, like the fair in Paris, where only French products are admitted, or international, like the fair in Leipzig and Lyons, where products of all nations may be exhibited.

These fairs are generally much alike. For a nominal price, a booth or a room may be rented for the display of samples. Because the booths are small, there can be no elaborate display of a type to attract the sightseer. Visitors are mostly business men who are in the market to buy. In some cases, admission is "restricted to bona fide buyers for home and oversea markets," as in the British Industries Fairs. As M. Herriot said in the opening of the Fair of Lyons, the motto of a fair is "the maximum of business, in the minimum of time, with the minimum of expense."

At the beginning of the war, only two fairs of importance existed, that at Nijni Novgorod, in Russia, and that of Leipzig—two survivors out of the hundreds of fairs held annually during the middle ages. The war revived many of the old fairs, and led to the establishment of new ones. The first was the Fair

of Lyons, in 1916, and its success encouraged others. The most important fairs now held in Europe are those of Leipzig, Cologne, Lyons, Prague, Warsaw, and Utrecht (Holland). In Great Britain, three fairs are held concurrently in London, Birmingham, and Glasgow. These fairs are administered by the Board of Trade, which is an official bureau in the United Kingdom corresponding to the Department of Commerce in the United States.

In many countries these fairs enjoy not only government recognition but active support in the form of subsidies and assistance in advertising its facilities. The British Board of Trade has its "Exhibitions Branch," and similar offices have been created in the French, Italian and German governments.

10. *Expositions.*—The fairs just discussed must not be confused with expositions. The fundamental difference between them is that at the fair only business men meet, while the expositions appeal principally to consumers. The international exposition is expensive and its commercial value is doubtful. It is, therefore, not likely to remain an important factor in foreign trade. The trade fair, restricted to a limited range of articles, is likely to take its place.

The principal weakness of the exposition lies in its enormous expense and in the absence of a follow-up. Much energy and expense is dissipated in attracting only the passing interests of consumers—in a sight-seeing and not a buying mood—who, after the exposition closes, scatter to the four corners of the

world. The world exposition makes a world appeal, but the appeal is temporary and will lose its effectiveness almost immediately unless followed closely by a world-wide advertising and sales campaign. This entails outlays which most firms are not able to make.

The fair is different. There merchants gather regularly at stated intervals. They see the same firms represented year after year. The principal advantage of the fair is that it brings together in a small space products made by firms with whom without the fairs, buyers could not hope to establish personal contact.

11. *Permanent exhibits.*—Of more importance than the exposition is the permanent exhibit. This type of exhibit may display the goods of a country or only of a section. Barcelona maintains textile exhibits. There were also, in pre-war times, export exhibits in Stuttgart, Berlin and Leipzig. The exhibits of the California Development Association in San Francisco, and the Deseret Museum in Salt Lake City are domestic examples.

The object of the exhibits may be to acquaint foreign buyers with the products of the country. The French Commercial Museum in Tunis, the Mexican exhibit in St. Louis, and the exhibits maintained in connection with Mexican consulates, the Brazilian textile exhibit in Buenos Aires, the Hungarian exhibits in Albanian cities are of this character. The Japanese have recently established a number of such exhibits in the South American cities. Fifty English

manufacturers have combined in holding periodic exhibits of their goods in Buenos Aires and Rio de Janeiro, apparently with satisfactory results.

The exhibit may be one of foreign products, to allow the home manufacturers to acquaint themselves with the products of their competitors in foreign markets. The English Board of Trade, previous to the war, had a permanent exhibit of over 13,000 samples of German and Austrian goods and a library of some 10,000 German catalogs. In 1925, an exhibit of foreign samples was held in Leeds. Once a year such exhibits are held in different industrial centers of England. Exporters can borrow the samples and may endeavor to copy them.

12. *Traveling exhibits.*—Many attempts have been made to encourage sales abroad by the organization of traveling exhibits.

The first enterprise of this kind was that of a German merchant who, about 1812, fitted out a sailing vessel for a trip to Asia, carrying samples of some hundred German and Austrian manufacturers. It was a total failure because the products were not sufficiently adapted to the Oriental market. Many similar attempts have since been made in Europe and the United States. With a few exceptions they have not been successful.

The reasons for this history of failure are not far to seek. Most of these schemes were far too ambitious. An exhibit organized to meet the needs of many countries is very likely to fall short of meeting

the needs of any one of them. Another weakness has been the absence of a definite and efficient system of advertising and selling follow-up.

A floating exhibit need not be a failure. The following requirements, it would seem, should be fulfilled. A small exhibit of goods should be built up, selected because they meet the needs of the market to be visited. A limited number of ports must be visited, preferably those where the business of the country is concentrated. Countries should be selected where the arrival of such a ship would attract attention, and the trip should be followed by an extensive selling campaign to capitalize on the first impression and to produce tangible results.

That traveling exhibits under such conditions can be successful has been shown by the railroad exhibits of French goods, shown in Canada in the summer of 1921, through the courtesy and with the coöperation of the Canadian government. This successful traveling exhibit was followed by a Canadian Exhibition Motor Train, organized by the Canadian Department of Trade and Commerce, which toured France in 1923.

13. *The commercial museum.*—In the commercial museum no attempt is made to close sales. The exhibits are for the purpose of disseminating information. Frequently, a foreign trade bureau is an adjunct of the museum, and provides business men with guidance in difficult problems.

In the United States the only commercial museum

worth mentioning is the Philadelphia Commercial Museum. This institution, supported by the City of Philadelphia, the State of Pennsylvania, and by private subscription, ranks as one of the best museums of its kind in the world. Among its purely educational activities may be mentioned the lectures that are sent out by the lecture bureau to schools throughout the state. These lectures deal with various countries, or with certain industries, and are illustrated by lantern slides furnished by the museum. Attractive cabinets, containing samples of the principal raw articles of commerce, are sold to high schools and colleges for a nominal price.

The business man can derive great benefit from the excellent service rendered by the Foreign Trade Bureau of the museum. This bureau publishes a monthly, *Commercial America,* which is published also in Spanish and widely distributed in Latin America, where the museum is known and highly regarded. A weekly bulletin gives a list of inquiries received from foreign firms, and much valuable current information. Upon request, the bureau furnishes information about specific markets or products. It gathers credit information, makes translations into any foreign language, circulates printed lists of manufacturers and their products among foreign buyers, and aids in collecting overdue accounts and in securing reliable agents abroad.

The exhibits, which occupy two large buildings, represent a large investment, and are arranged so

as to give a complete picture of the products of each country, by types, grades and steps of manufacture. The collection of photographs, drawings, and models dealing with the history of transportation is highly instructive.

The oldest and probably the best commercial museum in Europe is the Commercial Museum in Vienna. This institution, though nominally an independent corporation, was officially maintained by the Austrian government. It constituted the official channel through which the business man obtained information from the Austrian consuls. It issued two publications. In connection with the museum the Export Akademie was maintained, which trained for business and prepared for the consular service.

Other examples are the museum in Brussels, which published a weekly *Bulletin Commercial,* the Imperial Institute for the United Kingdom, the Colonies and India, in South Kensington, London, which issues the splendid monthly *Imperial Institute Journal* and the quarterly *Bulletin of the Imperial Institute.* Other museums are found in Bordeaux, Marseilles, Amsterdam, Bremen and Berlin.

14. *Export publications.*—For a long time the difficulties which beset the American trader in seeking foreign markets were very great. A generation ago, those who had first-hand, or even second-hand, information in regard to foreign countries were few in number. Older men now living can readily recall a time when the man who had been to Europe was a

marked man in the community, and one who spoke or read a foreign language one of unusual accomplishment. Just as this situation has passed away in our social life, so it has disappeared in the commercial world.

Many excellent magazines enable the progressive business man to keep informed. The *American Exporter* with editions in Spanish, Portuguese, and French, as well as in English, *International Merchandising, The Exporter's Review, Dun's International Review* in English and Spanish, *Asia, The Pan-American Magazine, Exporters' and Importers' Journal,* and a number of house organs such as *Commerce Monthly,* published by the Bank of Commerce of New York, are but a few of a long list of excellent publications.

The development of foreign markets is such a delicate business and calls for so much specialized knowledge that any firm about to enter the foreign field will find an investment in a fairly complete library of export and special trade publications a paying proposition.

REVIEW

Outline the activities of chambers of commerce in English-speaking countries.

Compare the position of the English type of chamber of commerce with that of the chamber of commerce of the French type.

Mention some of the foreign chambers of commerce established in the United States.

Mention some of the more important foreign trade associations and state some typical activities of these bodies.

Give some ways in which branch banks may assist foreign trade.

State the difference between expositions and sample fairs.

Describe the operation of a sample fair.

Explain under what circumstances a traveling exhibit may prove successful.

CHAPTER VI

INTERNATIONAL COÖPERATION FOR THE PROMOTION OF TRADE

1. *Business has assumed a new international position.*—In international affairs diplomacy and business have long been closely interwoven. It seems that recently the relative importance has shifted in the direction of business. During the seventeenth century, when centralized states were being formed by joining the many independent principalities and cities that had grown up during the middle ages, it was soon realized that a commercially successful state had the advantage over its neighbors. Gold with which to pay for soldiers and sailors, and to maintain elaborate and impressive courts, symbolic of the new state, was more easily obtained where business flourished.

Commercial prosperity was thus looked upon as a stepping stone to political power, domestic and international. This point of view has not been abandoned, but there has crept into the relation of business and diplomacy an increasing realization that the economic life of the nation is the end, not the means to an end to be attained. As a result, diplomatic intercourse is becoming more and more business diplomacy. The business man, in many cases, is taking matters into

his own hands, and reaches agreements with competitors in other countries which contribute more effectively to the stabilization of international life than did the old time diplomatic agreements.

International coöperation on a business basis is an outgrowth of the progress made during the last century. The exporter must familiarize himself with these relatively new developments that will increasingly affect his welfare.

2. *The communication problem.*—Goods had been transported for centuries from one end of the world to another, but a new situation arose when machine production changed the methods both of production and of selling. Production was changed in that larger quantities were produced than formerly, and uniformity of quality could be more easily obtained. Selling was changed because the manufacturer could no longer be satisfied to produce to order as heretofore, but was compelled to produce in anticipation of the demand. This made selling a matter of much greater importance than formerly. Fortunately the fact that quality was standardized assisted selling, in that it made selling by sample, by catalog, and by description possible.

The new business structure which thus was built depended upon one vital factor—efficient communication. This was a new requirement and the machinery needed to carry on this function did not exist at that time. Domestically, the carrying of mail was usually farmed out to private individuals who ex-

pected to make a large profit out of this concession. The service was not sufficient, but it worked. International communication was in a very unsatisfactory condition. No international communication service is possible without the closest coöperation between the nations, in which political considerations are pushed into the background to make place for practical requirements.

Agreements relating to communication constitute the first effective steps toward economic coöperation, and the success attained in this field was an encouragement to similar attempts in other lines.

3. *The international postal service.*—The creation of an international postal agreement, besides demonstrating the practicability of economic agreements also inaugurated a new method of accomplishing them. At first regulated by special treaties between individual countries, the postal service was placed on a truly international basis through the convention of 1874, by means of a multilateral treaty. This is a type of treaty to which many states adhere at one and the same time. In fact, 22 states inaugurated this particular treaty, and from the outset Europe, America, North Africa and Russia, a population of more than 350,000,000 people, were directly affected. From time to time other states joined the agreement, known as the Universal Postal Union, until to-day it includes all civilized countries of the world.

In virtue of this original agreement, extended by later congresses which take place every five years, a

uniform postage between all countries was established. The central administration is located in Berne. An international parcel post agreement was established in 1885, and the international money order in 1891.

The international reply coupon is one of the latest facilities introduced. The coupon may be bought at any post office, and is redeemable in any member country in a stamp of denomination sufficient to carry a letter by international mail. It is thereby possible, in writing to foreign correspondents, to "inclose stamps" for reply.

Under the original agreement, the member states were allowed to continue to regulate their domestic services as they saw fit. Although more and more the local postal facilities are conforming to the international standards, some differences continue to exist. Not so very long ago it was possible to ship goods by parcel post from New York to Amsterdam, Berlin, or Capetown, but not to Albany, New York. By the introduction of the domestic parcel post, the American service has been brought more closely in agreement with the services available internationally.

If we compare the various local postal services we find that except for minor differences in the administrative details, there is little to distinguish them. There is, however, one field in which European services are more highly developed. These postal organizations perform many functions that in this country are left to the banks.

On account of the relatively limited use made abroad of bank deposits and checks in ordinary daily transactions, the collecting of out-of-town bills is more troublesome than in this country. The post office in many countries will undertake to collect such bills through special employees, who will present them at the place of business of the payer and remit the proceeds to the payee.

On the Continent, many countries have added a postal check system to the other functions of the department. This system, except for a quite unnecessary amount of red tape, operates like our bank deposit system. It makes possible the transfer to others of money on deposit with the department, by means of elaborate forms, that, in principle, are the same as the checks with which we are familiar at home. Inaugurated in Austria in 1883, the plan was rapidly adopted by other countries. In 1910, steps were taken to make the system international, and, by 1913, these plans seemed to be fairly on the way toward realization. Then the war put a sudden stop to further developments.

4. *The telegraph and cable service.*—Following in the footsteps of the Postal Union, the International Telegraph Union to which practically all countries of the world belong, was established to bring about coöperation in this field. The need for coöperation in telegraphy was especially urgent from a technical point of view. Only if all countries adopted instruments which could send and receive according to the

same system, and a universal code was agreed upon, could communication take place at all. The central office of this union is also located in Berne, which is the home of many such international administrative bureaus.

One factor played a part to complicate the arriving at any world-wide agreement. The United States has not to this day joined the Union. Nor is it clear how it would be possible to do so, because America stands practically alone in allowing this most important branch of the communication service to be carried on by private enterprises.

The telegraph union, being a union of governments, cannot officially recognize a private enterprise. American companies are, however, permitted to take part in the discussions at the various conferences, but they are deprived of the right to vote.

5. *The cable service a special problem.*—Another problem was presented by the cable situation. The development of the world cable net has been principally in the hands of private concerns. There are some 2,500 government-owned cables, but most of them are short and of only local importance. The reasons for this are not far to seek.

The investment required in the laying of cables is exceptionally large, and governments have hesitated to make such outlays. No cable can begin to operate until some foreign government has granted permission to land the cable on its shores. It has

been found expedient to leave cable operations in private hands, since landing privileges can then be secured with less likelihood of diplomatic disturbance.

There are several ways by which a government may exercise control over the cables that connect it with other nations. The control over the landing station is one method. No efficient cable service can be maintained unless some basis of coöperation is established with the inland telegraph system. Government support is often given to certain cables, and withheld from others, by allowing preferential rates on messages that are submitted with request for transmission by the favored connection.

The technical efficiency of the cable diminishes rapidly as its length increases. There is, therefore, a great advantage in being able to use intermediate landing stations, even if a less direct route results from their use. Automatic relay instruments eliminate whatever loss of time might otherwise result from interrupting the connection.

Great Britain, through its ownership of a great many insignificant islands in every ocean basin, controls through them the cable net of the world. The cable connections between the United States and Europe, although many of them are owned by American companies, have their terminals on English territory. Most of them start eastwart from Canada and Newfoundland. The few cables leaving the United States shore directly, reach the continent by way of

the Azores. This is Portuguese territory, but in time of war England need have no fear as to who would control these islands.

The organization of a new company with governmental support, which was given control over all means of electric communication by cable and wireless within the British Empire, has contributed to making the British control over the communication facilities of the world even more effective.

The wireless service is still too dependent upon the weather to be a substitute for cables. Wireless messages cannot enjoy the same degree of secrecy as cable messages, and the problem of interference is a real one. Any station in Europe, Australia or South America, if it so wished, could make the use of wireless communications in the United States extremely unreliable.

Although a number of conferences have satisfactorily regulated the technical aspect of cable communications, the problem of interference with wireless services has not yet been solved. The position of the neutral nations with respect to communication by cable or wireless in case of war is as far from being satisfactorily regulated as it was in 1914.

6. *The need for standardization.*—Foreign trade is made more complicated than domestic trade by the fact that, as soon as political boundary lines are crossed, the trader may expect to find almost every phase of the business transaction to be somewhat dif-

ferent from what it would have been in the home market.

These differences add to the expense of doing business, slow down transactions, and often lead to misunderstandings of a serious nature. Any step in the direction of bringing order out of this chaotic condition, through standardization, will contribute to trade by removing unnecessary risks and by promoting good will.

But this is not an easy matter. In principle, business men of every nation will agree that standardization is a splendid thing. It is not difficult to see that, if business in India could be carried on in the same manner, and subject to the same laws, as in the United States, commercial relations between the two countries would be much facilitated. But when it comes down to agreeing what standards shall be universally adopted, the matter at once seems hopeless.

Take the matter of the system of weights and measures as an example. The metric system, a decimal system first introduced in France in 1795, is now in use, either exclusively or along with the older measurements, in over 200 different countries. Only the English-speaking nations adhere to the antiquated imperial system of weights and measures. Our monetary system and all our calculations follow the decimal system, but in our weights and measures we still follow a mixture of ancient systems of mathematics, based upon multiples of two and three. Not

only is this system complicated and awkward, but it places us at a decided disadvantage in dealing with countries using the metric system.

It is a strange fact, but the metric system is used in the United States in all scientific work. In medicine, in the electrical industry, in military maps, in ordnance, the metric system has driven out the old measurements. It is used exclusively in the United States Public Health Service, in the Philippine Islands, in Porto Rico, and in our coinage system.

In manufacturing for export, it is often necessary to install entirely new machinery, so that dimensions may correspond to the metric standards. A customer buying a non-metric piece of machinery will find that he will have difficulty in finding even so simple a replacement part as a nut or a bolt to fit his machine in case of need.

The disadvantages of our system are easily understood. We pride ourselves upon our willingness to accept what is better, and to reject without regret what has passed its period of usefulness. Yet, there are no signs that the United States is preparing to change to the metric system. If such a change seems so difficult to bring about, it need not cause surprise that world standardization along other lines progresses but slowly. It is indeed remarkable that so much progress has been made.

The development has taken different forms. Sometimes, leaving the individual nations free to regulate their own affairs where local business is concerned,

uniform action has been secured where international business is involved. In other instances, local laws are brought into conformity with the established principles laid down by international agreement.

7. *Trade-marks and patents.*—A different method has been followed in the international regulations for the protection of industrial property. All that is needed in this field is accomplished when states recognize the legal protection given by other states, and agree to afford foreigners the same protection they grant to their nationals.

When selling abroad it becomes at once important to have trade-marks and patents protected in the foreign market. All money and effort expended in building a foreign demand could be wiped out in a day if others could freely use the trade-marks of foreign producers. Many instances can be quoted where such "trade-mark piracy" resulted in the rightful owner of the mark being heavily fined for using his own trade-mark, which was registered by another firm. Such situations are usually settled out of court, to the great satisfaction of the person who registered the trade-mark in the foreign market with no intention other than of selling his acquired right to the rightful owner when the time was ripe.

The copying and registering of foreign trade-marks does not always take place with fraudulent intent. One need only glance through the foreign newspapers and magazine advertisements to see how many American advertising schemes have been copied,

with variations, by respectable foreign firms. American advertising methods are highly regarded abroad, where lack of originality leads to imitation.

Such imitation, otherwise flattering, may sometimes become annoying. A prominent American automobile manufacturer, about to introduce his cars in the Australian market, discovered that another car was already established there, with a name and name plate so similar as to lead to confusion in the minds of the customers. Here was an honest concern manufacturing a car which had acquired a high reputation, but using a trade-mark and trade name almost identical with those of a successful American make.

In many cases the injured manufacturer is really himself responsible. Had he had the foresight to register his trade-mark abroad when he established his rights to the trade-mark at home, no difficulties would have arisen. When foreign trade comes as an afterthought, he may find that someone else has "beaten him to it."

8. *The trade-mark laws differ.*—How may protection be secured? A difficulty arises in that the laws differ with respect to the way in which ownership in a trade-mark is established. Some laws state that prior registration determines this ownership right, while in other countries like Belgium, France, Italy and the United States, real evidence of ownership does not lie in registration but in prior use, which, if proved, nullifies any registration.

The English system presents a combination of these two principles. During a period of seven years after registration, prior use may nullify prior registration. After this period the right can no longer be disputed.

The duration of the right differs. In Honduras no time limit is set. In Colombia it remains valid for 20 years; in Argentina the time limit is 10 years, with privilege of renewal. In Japan the time limit is 20 years, but the right expires with the termination of the business for which it is used by the owner.

9. *Registering the trade-mark abroad.*—Almost without exception, the applicant for protection in one country is given a reasonable period during which he may establish his rights in another country. This was established by the Paris Convention for the Protection of Industrial Property in 1883. The terms of this agreement were revised by the Brussels convention in 1900, and again in the Washington convention in 1911. In this convention, the states, which now include all of the more important countries of the world, agree not to discriminate against foreigners in the matter of trade-mark protection; to allow a period of four months for registration following the date of original registration in any of the member states; and to protect the firm's name without the formality of registration.

Under the original convention, it was still necessary to take out separate registration in each of the signatory states. The convention of Madrid, in 1891,

established a central bureau in Berne. Registration in one country may now be followed immediately by a notice to this central office, which then, by notice to the various signatory states, registers the trade-mark with them. Unfortunately, the number of states that have ratified this latter convention is small, and does not include England or the United States.

Several similar conventions have been concluded by the states of North and South America. In 1910, the Inter-American Convention for the Protection of Industrial Property, signed in Buenos Aires, provided for establishing a central registration bureau in Cuba. Another convention, signed the same year, provided for the protection of trade-marks, and established two bureaus, one in Havana and the other at Rio de Janeiro. The text was revised in 1923, and was ratified by the United States in 1925. Many of the South American states have failed to ratify the agreement.

The Havana office is now in operation under the name of Oficina de la Union Internacional Americana Para la Protection de las Marcas de Fabrica y de Comercio. Some 1,500 trade-marks have been registered with this bureau. A quarterly "Album" publishes the facsimile of the marks, with information concerning nationality, the date of first registration and ownership.

There is no doubt that the international trade-mark situation will ultimately be regulated along the

lines of these conventions. But, until the nations more generally coöperate in putting these measures into effect, the situation will remain unsatisfactory.

10. *Patents.*—The international protection of patents received attention at the conference of 1883, and at subsequent conferences dealing with the protection of industrial property. But the actual practical results are even smaller than in the case of the trade-mark. Nearly every country recognizes patent rights, although in some countries patent registration is of quite recent date.

In most countries the holder of the patent is obliged to "work" the patent within a stated period. When this requirement is not complied with, the patent may be revoked, or others may be permitted to produce the article patented. This seems a just provision, for the public is then not compelled to forego the benefit of a new invention because of the monopoly privilege granted.

In the United States the law which grants patent protection for a period of 17 years does not require the patented article to be produced upon a commercial scale. In this the United States differs from almost all other countries.

The taking out of a patent abroad, therefore, may be a rather complicated matter. It is possible that, in order to prevent the patent from being canceled, some arrangements must be made to have the goods produced abroad.

In Great Britain and many other countries a sys-

tem of "compulsory license" exists. Any holder of a patent who fails to work it himself within the country, and does not allow others to manufacture the article may, under this provision, be compelled to allow a person designated by the courts to manufacture them. As a rule this step is taken only where the public interest is clearly benefited by the production of the patented articles.

The Patent Act of Canada, which became law in 1923, contains a similar provision. It reads in part: "If by reason of the default of the patentee to manufacture to an adequate extent and supply on reasonable terms the patented article..... the demand for the patented article.....is not reasonably met—any person interested may present a petition to the commissioner.....praying that the patentee be ordered to supply the patented article at a reasonable price, or grant licenses for the use of the invention on reasonable terms."

It is obviously impossible for any manufacturer to undertake to produce his patented goods in all countries of the world, merely to prevent someone else from obtaining a compulsory license to manufacture under the patent. But it was not until the convention for the Protection of Industrial Property of 1911, which replaced the one of 1883, that the nations agreed to make the following provisions operative among the signatory states: "No obligation of domicile or of establishment in the country where the protection is claimed shall be imposed upon the

members of the union." This provision affects only the signatory states, since no state can bind another without its consent.

The same problem still confronts the owner of a patent as did the owner of a trade-mark. He can claim protection only on the basis of registration, in each country where protection is desired. In order to make it possible for patents to be secured in foreign countries, the member states agreed to allow a period of twelve months during which the original patentee would have priority of registration.

How elaborate a procedure is still needed to secure effective protection in the world's markets for patented articles is best illustrated by the condition that exists within the British Empire. A separate application must be made in Great Britain and in each of the colonies, protectorates and dominions, about 50 applications in all. The fees for this registration alone would amount to about $5,000. Although at the British Empire Patent Conference of 1922, and at the Imperial Economic Conferences, the desirability of establishing one central patent office for the entire Empire was discussed, to date no definite steps have been taken to bring about its establishment.

11. *Labor legislation.*—At first it might seem that social legislation in its various forms is of only national interest. What concern is it of the people of Italy whether the working men of Great Britain are insured against unemployment, and receive old-age pensions? When we examine the problem more

closely, we see that such matters are of international importance.

Both from the side of the employer and from the side of the employee, the desirability of international standardization of labor conditions is beginning to be recognized. Countries of low standards of living, with wage scales and hours of work that differ greatly from those of other industrial countries, may prevent the improvement of working conditions the world over. Tariffs do not offer an adequate solution for the problems arising out of the competitive struggle between countries of a low and of a high standard of living.

As early as 1818, attempts were made to secure coöperation among the governments of the world, and to standardize the labor legislation which was at that time taking the form of regulating the work of children and women. The attempts were looked upon as socialistic and met with no success. The efforts continued, but it was not until the Treaty of Versailles, which ended the World War, that they bore tangible fruit.

By this treaty there was created an international labor office by the nations signatory to the treaty, "moved by sentiments of justice and humanity as well as by the desire to secure the permanent peace of the world." This office, which is independent of the League of Nations, has done a great deal to promote the standardization of labor conditions throughout the world. Through its many publications, infor-

mation regarding the development in the field of labor legislation in every part of the world is made available to the public. The office has brought together a remarkable library of material. Through the conferences which take place periodically, the nations have been provided with an opportunity to compare developments and to iron out problems that stand in the way of better working conditions in the more backward countries.

The work of the labor office is highly constructive in that it has been instrumental in bringing comparative wages and working conditions into the light of day. There is no doubt that international competition will be greatly affected by any results attained in the field of social legislation. The periodic labor conferences should be watched and their results studied by every business man interested in foreign markets. In the words of Baron Makino at the first labor conference held at Geneva: "The one great problem of the future is the labor problem."

12. *Standardization of statistics.*—Many agencies, private and governmental, are engaged in the collecting of statistics relating to trade and industry. Such information is indispensable for anyone who, as a foreign trader, expects to enter a new market. The only way in which he can discover what is the purchasing power of the market, what is the number of city dwellers and the number of those living on the farm, what is the quantity of competing goods produced at home and imported from abroad, is to study

the published statistics. Faulty though they may be, such figures, systematically collected, will always be more reliable than any rough estimate made, even by one familiar with the trade.

Here, again, we face a difficult problem when we venture outside of the borders of our country. Statistical data are useless when they cannot be compared because they have been collected by a different method, or are expressed in units that cannot be translated into a common unit.

Unfortunately, most statistics dealing with foreign trade cannot be relied upon for that very reason. As an experiment, it is interesting to compare the exports of certain goods from the United States to a foreign country, according to the American figures, with the foreign figures indicating the quality and value of goods received from this country. Theoretically, these should be equal. Practically, they never are. The difference is caused by the use of different methods of ascertaining value and quality.

In one country the statistics go into great detail, while in other countries the figures are thrown together into large groups. No one interested in gloves is greatly benefited by knowing how large were the imports of "leather goods."

There is likewise no agreement with respect to the definition attached to "country of origin" and "country of destination." Country of origin may be considered as the country where the goods were made, or

where they were purchased, or from which they were last shipped. Country of destination may be understood to be country of final destination, the country where they were purchased, or the country to which they were shipped. It is clear that very wide discrepancies will be found when we compare statistics regarding trade relations, compiled by countries differing in their interpretations of these two terms.

Trade statistics may then actually become misleading. Prior to 1840, the Belgian statistics did not show any trade whatsoever with Switzerland. Yet large quantities of Swiss products were imported, and many Belgian products found their way to Switzerland. The products thus exchanged were swallowed up in the statistics of French and German trade, because these goods could not reach their destination except through France or Germany, and the latter countries were taken to be the countries of destination, or of origin. Obviously, this statistical condition of confusion is not calculated to facilitate trade, nor to make it easy to arrive at international trade agreements.

Attempts have been made to remedy these defects. At the International Statistical Congress in Brussels, in 1913, a schedule of 186 classifications was recommended, and was accepted by the principal European countries and 13 American states. The agreement was that each country should be free to publish its statistics as it wished, but that in order to facilitate

international comparisons all countries would also publish their figures according to the agreed uniform scheme. In order to facilitate the publication of these schedules, a central office was created, with headquarters in Brussels.

The war interrupted the activities of this bureau. The American republics took up the matter independently, and, since the close of the war, the League of Nations has given consideration to the question at various conferences dealing with this and related subjects. Standardization of international statistics has been a topic that has played a prominent part in the agenda of the International Chamber of Commerce.

Many other phases of international relationship are in need of more uniform practice. Much remains to be done to arrive at more satisfactory agreements in the field of commercial law, taxation, and insurance. A detailed consideration touching on all these topics would carry us too far afield. It should be the endeavor of everyone who wishes to be informed in matters touching international trade, to keep himself informed regarding the developments along various lines of international standardization. All foreign business is deeply affected by whatever progress is made in removing the obstacles that a lack of uniformity of practice place in the path of commerce.

REVIEW

Explain the organization of the international postal service. Account for the powerful position occupied by Great Britain in the field of international cable communications.

Enumerate some of the fields of business relations in which standardization would be desirable.

State the meaning of the term "trade-mark piracy" and explain what is being done to lessen this evil.

Explain why trade statistics should be used with great care in drawing conclusions regarding exports and imports of certain commodities.

CHAPTER VII

THE MARKET

1. *Careful study of the market necessary.*—Before undertaking the development of the foreign market it is advisable to make a careful study of its possibilities and requirements. The first step is to determine which of the many possible markets shall be chosen. The character of the goods to be sold will frequently limit the choice. A manufacturer of Palm Beach cloth will not find buyers in Northen European countries, and ice skates are not in demand in Central America. This may seem perfectly obvious when stated as a general principle, but would-be exporters have been known to make costly mistakes by neglecting considerations almost as obvious as those stated.

Where commodities are of a more general appeal, it may prove more difficult to determine which market to enter first. Some firms enter several markets at once. Unless ample capital is available for the venture, and a large office force can be maintained from the start, such procedure is usually not to be recommended. It is better for a firm of moderate capital to develop one market at a time. The problems encountered in each are so many and so varied

that attempting to solve them all together would mean scattering one's energies over too wide a field.

2. *Seasonal and trade fluctuations are a factor.*—Since, as has been pointed out, the foreign sales may contribute to stabilizing the domestic business by offsetting certain unescapable fluctuations, it is well to bear this in mind in choosing the market where the beginning shall be made.

The complaint is often heard from the side of export managers that, when after much expense and effort large foreign orders come in, the firm is unable to fill them because preference is given to the domestic customers. There is a great deal of truth in that complaint, but may it not be that the export manager himself is to blame? The demand for almost all goods is subject to seasonal fluctuations. Is it not true that, if large orders from abroad come in when domestic business is at a low ebb, no difficulty is experienced in having the orders filled promptly? It cannot always be done, but where it is possible the market to develop first of all is the market where the demand dovetails, or alternates, with that of the domestic market.

This may not always be the market easiest to develop. It may be more costly to open up, and the sales may not be so large as in some other market, but what is gained by obtaining large orders easily elsewhere when they cannot be filled as they are received?

3. *Purchasing power of the market.*—One of the

first things to consider is the purchasing power of the various markets. This determines their relative importance as potential customers, but figures relating to purchasing power should be carefully analyzed. Statistics giving estimates of national wealth are of little significance, because current purchases are made with income, not with wealth. National income statistics are equally unsatisfactory. At best, we can derive from them the average per capita income. This again would be meaningless.

The average in British India would be composed of a few fabulously rich individuals, and millions who do not earn enough to buy their daily rations of rice and salt. An average in the United States or Canada would be composed of a very small number of very rich, a very small number of poor and dependent, and a large number of people of moderate means with a high standard of living and very large purchasing power.

A comparison of such averages would therefore be utterly meaningless. Figures relating to income gain meaning for our purpose only when linked to distinct classes, and when accompanied by some roughly typical budget of expenditures indicating the standard of living maintained on that income.

4. *Analyzing the purchasing power.*—Much depends upon the kind of article it is intended to sell. A new article introduced in a market may attack the budget of the customer in four different ways. The new product may replace another because it per-

forms the old functions better at the same price. The product may appeal because it sells at a lower price than an already accepted product. It may be that the article offers a more perfect service, but at a higher price. Finally the article may fill a place hitherto not occupied by any other in the consumer's budget.

It is clear that in the last two cases the problem of selling would be much more difficult, because not only is the consumer asked to change from one article to another, but also he is urged to purchase either better service at a higher price, or an entirely new service. In either instance, he is asked to increase his annual expenditures or, in other words, to raise his standard of living. It is obvious that, no matter what the income of the individual is, unless a fairly large share of it is available for luxury goods the budget will have extremely little elasticity, and the attempt to introduce additional expenditures will not easily meet with success.

In one and the same market there may often be very different spending habits. Usually these differences result from economic ability. In all colonial possessions there are at least two distinct markets. There is the market, very large in terms of numbers, but not large in individual buying power, composed of the native population. Cheap goods adapted to their use may be sold in large quantities.

Side by side with this market is an entirely different one. It is the market of the western settlement.

Here we find men and women accustomed to western standards of living and comforts, living under conditions where lavish expenditure is encouraged, and old habits of economy are easily broken down. Their incomes are higher than they would receive at home, and they have few pleasures that are not of a competitive social character. Here, then, is an ideal market for expensive luxury articles.

5. *Customs and social distinctions are important.* —Not only economic ability but also social distinctions will often play a part in determining not the ability to spend but the willingness to buy certain things.

There are few markets in the world which have the degree of homogeneity found in Canada, Australia and the United States. A grocery store in the poorest section of New York City will have on its shelves brands of package goods which can be found in the most exclusive store on Madison Avenue. The stores selling to the working men carry the same brands of shirts and collars that are found in those catering to the well-to-do.

The merchandising situation in Europe is quite different. The rich inhabitant of London would find not much that he would care to buy in the stores of the poorer district. The two classes have different buying habits. This difference does not result necessarily from economic differences. It is by no means always to be explained by the fact that certain goods are too expensive for a working man to buy. It is

because he does not care to own them. It would not be according to his "station" for him to dress like a gentleman, and he would be exposed not so much to censure by his superiors as to ridicule from those of his own class. This social pressure is quite as effective in limiting purchases of certain articles as are the economic limitations.

Certain national habits, for which it would be very difficult to account, also play a part. There is a much better market for canes in England than in the United States. On the other hand, although England's climate is notoriously damp and rainfall is frequent, the use of rubbers is less general than in the United States.

Sometimes such differences can be explained from local conditions. The hot climate of America, discouraging the wearing of a vest, has created a demand for belts, but in Europe belts are worn very little, and, if at all, often in combination with suspenders.

In many parts of Europe there still exists a pronounced unwillingness to invest in a phonograph or radio. H. G. Wells is said to have made the remark that he considered a radio an unnecessary evil. A similar prejudice exists among the upper classes against the moving pictures. These forms of entertainment are by some considered unsuited for the discriminating taste of those on a high level of culture. Only a slow process of education can break down such prejudices.

6. *The product must be suited to the market.*—It

is strange that the same manufacturer who with the greatest care has adapted his product to the needs of the American market, not infrequently fails to give equally careful consideration to the demands of the foreign market. Too often the attitude seems to be that because the American public is one of the most discriminating and critical of nationalities other countries ought to learn to appreciate the products approved by the American consumer, and that it is due only to native stupidity if they fail to do so.

It is easy to lose sight of the fact that the American buyer, like any other, has very decided and often quite unreasonable prejudices. The successful merchant is the one who adapts himself to the customer, and makes use of his prejudices to encourage acceptance for the product to be marketed.

Often minor changes suffice to satisfy the foreign buyer. For no good reason automobiles have a right-hand drive, even in those countries in Europe where traffic keeps to the right. The easiest and wisest course is to build cars that conform to this requirement.

Often the packing must conform to an established habit. In countries where the standard of education is low, the package may be an important factor in selling goods to the illiterate lower classes, as it has proved to be in some of the mountain regions of our own country. If they have been satisfactorily supplied with candles through a package wrapped in blue paper with a white band, they are likely to look with

suspicion upon candles furnished in a green paper with a black band.

The size of a package may also be of importance. If purchases take place in small quantities, this demand should be satisfied by small containers, even if the same article is marketed in larger quantities in the home market. Such changes, although of minor character, may involve additional expense, but the outlay will be justified by larger sales.

7. *Trade-marks and trade names.*—In adapting the product to the foreign market, the name or identification marks to be attached to it should also receive careful consideration. If the product has been nationally advertised under a given trade-mark, the most natural thing to do would be to use the same trade-mark abroad.

This plan has many advantages. It will enable the firm to carry on a consistent world-wide advertising campaign, and to use the same cuts abroad as in the home market. This unified advertising has the advantage not only of simplicity and decreased expenses, but also of adding to the prestige of the trade-mark if it becomes internationally known. The identification mark "57" of a well-known brand of American food products is known the world over, and "Palmolive" greets the travelers at every railroad station in England and on every bus in the city of London.

But it may not always be possible nor advisable to use the domestically advertised trade-mark abroad.

In the first place, for marketing reasons it may be necessary to introduce such fundamental changes into the product that it would be a distinct disadvantage to have it branded the same as the domestic product. In case the product is sold at a price differing greatly from that in the domestic market, the use of the same trade-mark may invite reimportation, and call forth anti-dumping measures in the foreign country.

Likewise, it may be that the trade-mark adopted before the foreign market was considered as a possible outlet is not well adapted to the market. The words of which it is composed may be difficult to pronounce, or even impossible to pronounce in a language in which the peculiar sound combinations of English are not found. There may be something in the trade-mark that may offend the foreign purchasers.

The trade-mark laws of some countries forbid the use of certain marks that are not subject to such prohibitions elsewhere. In English India, the terms "German silver," "Nevada silver," or "Nickel silver" are not permitted. By the Spanish law of 1902, any trade-marks that caricature respectable individuals, objects or ideas are prohibited.

These matters must be examined with care if expensive and annoying difficulties are to be avoided. A French firm of importers found it necessary to destroy thousands of labels and expensive advertising matter prepared for the American market when it was discovered that the pure food laws of this coun-

try required a more detailed description of the product than appeared on the printed matter prepared. The name and trade-mark by which the product is to be known abroad should receive as careful consideration as the composition of the product itself.

8. *The time needed for delivery.*—In making a preliminary survey of the conditions under which it will be possible to enter a foreign market, the question of delivery must also receive attention. The time needed for delivery affects the competitive position of the exporter in several ways. In competing in South American countries with European firms, American concerns were at one time greatly handicapped because the steamship connections between Europe and the principal South American ports were better than those available from American ports. By better we mean more frequent and shorter in point of time. Frequency of sailings is even more important than speed. There is little gained by cutting the sailing time one or two days if goods must wait for an entire extra week before the next steamer sails.

In competing in European markets, the advantage possessed by the European competitors is even more apparent. Goods shipped from England to Berlin may reach their destination in 24 hours, although it takes at least 10 days for the American product to travel from factory to consumer. This difference may not always be important. But if, as with holiday goods, speed may be a first consideration, or,

as in the case of repair parts, good service and speed are synonymous, the difference in time may be of real importance.

The length of time goods are in transit influences cost. Money locked up in goods accumulates interest and insurance charges, irrespective of whether the transaction is financed by the buyer or the seller.

If speed in delivery is essential, it may become necessary to establish distributing warehouses abroad, from which quick deliveries may be made. This, again, involves expenses. Rent for storage space, salaries, insurance charges and interest charges on the value of goods, and import duties and freight paid will greatly add to the investment required.

9. *The local selling methods should be studied.*— Before deciding upon the method that will be adopted to place the goods on the market, a study should be made of the methods commonly followed in each locality, in selling similar products. Mistakes have been made by firms assuming that methods used at home would be equally effective abroad.

The position of the retailer and his relation to the wholesale trade is of importance. It will be found that in most countries a very strong class-consciousness exists among the small merchants. The prejudices and fears of this "commercial middle class," as it is commonly called, must be reckoned with in planning the method of selling to be followed.

Many articles can find a ready sale in other coun-

tries, but may make their appeal to a group in the community entirely different from the group that constitutes the market at home.

A small package of raisins is widely advertised in the United States as a convenient and wholesome confection for the man of business, and sold through the thousands of candy and newspaper stands that abound in our cities at every railway and subway station, and on almost every street corner. The product is excellent in quality, and has met with popular favor.

But money would be thrown away in an attempt to market these goods in the same way in Europe. The European business man would not buy such articles. He would consider it ungentlemanly, and even unmanly, to eat confections. Nor would the same channels of distribution be open to the product. The convenient small candy stands are not found in Europe. If found at all, they are patronized only by children. The only outlet through which these raisins could reach a high-class public would be through candy stores or grocery stores. In the absence of soda fountains abroad, candy stores are not frequented by men, and no self-respecting gentleman would care to mingle with servant girls in a grocery store to buy a five-cent package of dried fruit.

There is a market for raisins in Europe. The American product is far superior in uniform quality to the European product, but the appeal should be made exclusively to housewives. A preliminary sur-

vey of conditions will thus save much unnecessary expense and wasted effort.

10. *The cost of placing goods on the market.*—Before deciding upon a definite selling campaign it is necessary to determine at what price the goods should be offered. But a decision with respect to price policy cannot be made until all items of cost are carefully analyzed. These elements of cost may be considered under three headings. First comes the cost of selling, then the cost of transporting the goods to their place of destination, and finally the cost of financing the shipments.

We have already referred to the need of analyzing the cost of selling, and in a later chapter this aspect will be treated more in detail. When analyzed, we find that the cost of physically transferring the goods from one country to another is composed of various elements. In many cases a careful study of these elements may enable the exporter to reduce costs. We shall now examine these somewhat closer.

11. *The inventory problem.*—Where the goods as sold in the home market can be sold abroad without undergoing any change, the inventory problem is much simplified. Goods intended for export can be withdrawn from the general stock of finished goods. A carefully-planned export campaign would include some allocation of the total finished-goods inventory to the export field. This will assure an available supply for the filling of export orders, and will give the export manager the factory support that in many

instances is not sufficiently present. There need be no hard, inflexible rule laid down regarding this inventory, but there must be worked out a satisfactory method of allocation in some form.

Here is the first item in the cost of filling foreign orders—tying up of capital in an export inventory. The greater the change that the goods must undergo in order to become suited for export, the greater this cost will become. If it is only a different wrapper which is needed, or if merely a different label must be used, the matter is fairly simple. It is then possible to leave goods that may be used for export as a part of the partly-finished stock, and to withdraw them for finishing only as needed. This may delay filling of orders, but not greatly, and will prevent the tying up of large sums of money in goods that can then only be used in export. This inventory should always be reduced to a minimum in order to keep down costs.

Where more thorough differentiation is required, we face a dilemma. Two choices are open. We may finish the goods and store them awaiting export orders. This plan is costly and entails merchandise risks, because styles may change before the stock is sold. The other choice is to establish our partly-finished inventory far enough back along the line of manufacturing to allow goods to be finished either for export or for the domestic market, as conditions warrant. This method saves money, but it is clear that the longer the process of putting the goods in

final shape for the export market, the greater will be the delay in filling orders. As in many business situations, no fixed rule can be laid down as to which course to follow. It is entirely a matter of business judgment.

When the differentiation is great enough, manufacturing for export may begin to claim so much specialized equipment that the establishing of a separate factory may become the next logical step. When this situation prevails, the location of this separate plant may then become a new question to be answered. Why not build the factory near the place where the goods are to be sold, in other words, why not move the factory abroad?

12. *The packing of goods.*—Too much emphasis cannot be laid upon the need for a careful study of export packing. Nothing will so surely injure our foreign business as to have the goods, sent off in perfect order, arrive in damaged condition. Such a situation leads to endless apologies, lame explanations, claims and counterclaims, disagreeable friction all around.

The methods of handling ocean freight are not comparable to the methods used in handling domestic shipments. Goods must be transferred several times from one carrier to another, and often they are left exposed to the weather for long periods of time. They are hoisted in large slings from the wharf, and later from the ship's hold, and deposited again, not always in a gentle fashion. The result is that, unless

well protected by properly built crates or boxes, the goods are likely to suffer.

It must be remembered that proper packing does not necessarily mean heavy and expensive packing. It does mean packing according to proper engineering principles. Thus maximum strength and safety may be obtained with minimum weight and expense. The Bureau of Foreign and Domestic Commerce, and several of the larger lumber companies are in a position to give advice regarding packing methods.

One aim should be, of course, to save weight and bulk. Both must be paid for in ocean freight, and in loading and unloading charges, if any. They may also influence import duties, where duties are charged on the basis of gross weight. Where net weight forms the basis of import duties, this may be arrived at by taking gross weight and deducting a fixed legal percentage to allow for packing. An excess of packing weight, or "tare," is then reflected in the duties to be paid.

Excessive weight and bulk have other disadvantages. It may be that internal transportation facilities make small weight and bulk essential. The rolling stock of the European railroads is much smaller than that of the American system. Not all ports have the equipment needed to handle efficiently and safely heavy and bulky freight. The men who handle freight are much more likely to give careless and rough treatment to freight which is difficult and dangerous to handle, than to the shipments that give

evidence of consideration for the human factor in freight handling.

13. *The freight charges.*—Even where competing lines serve the same port, there is usually not much difference in freight rates between these lines. An exporter must, as a rule, take the freight charges as he finds them. Nevertheless, we may often find that our cost may be cut by a more complete knowledge of the transportation situation.

Frequently there may be a choice of routes to be taken in reaching a given point. Not only the cost but the efficiency of these routes may differ to a surprising degree.

By making use of the services of a foreign bonded warehouse, it may be possible to secure lower freight charges, because large quantities can be shipped at a time. The saving in shipping large quantities lies not only in the lower freight rates and better service that may be commanded, but also in the fact that it takes as much routine work to ship a large quantity of goods as it does to ship a small one. The same administrative overhead will take care of either.

14. *The customs charges.*—If we are to obtain a clear picture of our position in the foreign market, as compared with other manufacturers, we must also carefully look into the customs charges that will be levied on our goods. To all these charges must be added the cost of insurance, before we can compare our prices with those of others.

Gathering this information serves a double pur-

pose. We may never wish to sell, duty paid, to our foreign customers, but we must know what the goods will cost them before we can decide to enter the market at all, and, what is of equal importance, we must be able to assist them in their calculations by placing in the hands of our salesmen all information they may require.

15. *The cost of financing shipments.*—The final element in the cost of placing goods on the foreign market is found in the financial requirements. Essentially, there is nothing different in this from the situation to which we are accustomed at home. We face in foreign trade the same problems of deciding at what stage of the transaction the purchaser must take over the financial burden of carrying the goods. There are certain aspects of this situation that must not be overlooked.

The extent to which long term credit must be allowed is important as a factor of cost. It concerns us more directly and will influence the prices that we will be prepared to quote. It is often claimed that foreign trade cannot be carried on unless exporters are willing to give what, in the home market, would be considered unreasonably long credits. This is by no means always a fact. To be sure, in dealing with agricultural countries, lacking in adequate credit and banking facilities, the exporter able and willing to grant long credit will have the advantage. But there is nothing new in this to the manufacturer accustomed to selling in the home market. Where the

capital turnover is more rapid, as in industrial nations, and banking facilities at the disposal of buyers are more adequate, low prices and prompt delivery will mean more than long credit.

The longer the credit period, and the greater the distance that separates the seller from the buyer, the greater the credit risk. On the whole, foreign credits must be watched more closely than domestic credits. This is all the more true because it is difficult to obtain adequate credit information concerning foreign firms, and it is also more difficult to keep informed regarding general economic conditions in a distant country.

The general credit conditions in a foreign market should be as carefully watched as the individual risk. Some countries are notoriously lax in enforcing contracts at the expense of their own citizens; the foreigner seldom receives fair treatment in the courts.

The credit risk is still further increased by the fact that goods refused upon arrival and thrown back upon the hands of the seller are not easily disposed of. It is often out of the question to ship them back to the United States, on account of the excessive expense involved, and they may have to be sold at a very great sacrifice.

Where margins of profit are small, or where competitive conditions require the closest possible calculations, all the above factors that affect the cost of placing goods in the hands of the buyer should receive careful consideration. Accurate knowledge of

the cost of doing business is the first step on the road to doing business at a profit.

REVIEW

Give a short statement of the various kinds of information needed in making a "market survey."

What must be considered in determining the trade-mark to be used in the foreign market?

Mention some of the more important items that must be taken into account in determining what our goods will cost our customers in a foreign market.

Explain how distance is an element in the cost of doing business.

Outline some of the reasons why special attention should be given to the packing of the goods.

CHAPTER VIII

INDIRECT EXPORTING

1. *Indirect exporting.*—The development of foreign markets is so expensive, and calls for so much preliminary study and investigation, that many a manufacturer, with goods appropriate for export, and a growing need for an export outlet, hesitates to undertake the venture. This does not, of course, always mean that the products of such firms do not reach foreign consumers. Exporting may take place through middlemen. This process is sometimes called "indirect exporting."

2. *The export merchant.*—The oldest kind of middleman in foreign trade is the export merchant. Though at present the export merchant and the export commission house are not so sharply distinguished as formerly, both usually performing the same services, the functions can best be understood by discussing them as if they were wholly different.

The export merchant buys and sells. He buys in the home market to sell in the foreign market, or, as is frequently the case, he reverses the process and becomes an importer. As will be explained later, the export merchant many times sells first, and after-

wards buys in the home market the goods with which to fill the orders he has taken.

3. *The services rendered.*—Professor Clive Day, in "A History of Commerce," says that the early export merchants "found wares in some districts cheap and begging a market because of their abundance, which were rare and highly priced elsewhere; and they could make great profits by exchanging wares so as to put each where it was most wanted." This is essentially the function of the export merchant, and it is an important one to society.

It is said of these early middlemen that they made "great profits." This is true, but their risks were great also. They bought the goods in one country in order to sell them in another. There was no telling but that some other merchant might have done the same thing, and the two ships might arrive at the same port at nearly the same time. This would flood the market and their "great profits" in prospect might turn out to be a "great loss" in actuality. They also ran the risk of the goods being damaged en route, or of losing them altogether through the perils of the sea, or through pirates.

4. *Functional middlemen.*—As transportation companies began to carry goods, and merchants no longer accompanied their wares from market to market; as insurance companies were ready to shoulder the risk of ocean traffic; as the pirates were gradually driven off the seas by powerful navies, the export merchant lost much of his former importance. Many

of the services previously performed by him gradually passed into the care of the "functional middleman," the transportation company, the freight forwarder, the customs broker, and the insurance company.

Another reason for the decay of export merchants as a class is the growing tendency to buy by sample, or from catalog. Standardization of products, greater confidence in the honesty of foreign dealers. and better means of communication have made it increasingly possible to buy goods unseen. Because of improved banking facilities, the exporter may sell to strangers with whom he will never come face to face.

5. *Dealing through export merchants.*—Where buying from catalog or sample is difficult, or impracticable the export or import merchant will continue to play an important rôle. Articles of fashion are not bought from catalog. They are sent from one country to another by firms which may be classed as export merchants. Countries where the unit of industry is small and capital relatively scarce need the export merchant. He buys the products of many small establishments, of home industry, or of the small farmer. In some cases he supplies these small producers with raw materials, and sells to them on easy terms goods from foreign lands. German export merchants handle in this way much of the Russian and Balkan trade where home industry is still predominant.

Export merchants are still a great factor in England, where they are usually spoken of as "general exporters" or "shipping merchants." It was the export merchants who built England's foreign trade, and the powerful organizations that they developed still control, and will continue to control for years, the markets of many sections of the world.

It goes without saying that their hold is strongest in the "old lines," such as cotton goods. Newer products, such as electrical goods and many lines of machinery, are generally handled direct. Their intimate knowledge of the markets abroad and of the productive possibilities of the English plants, coupled with good will resulting from decades of sound business policy, make their position secure.

6. *Benefits to domestic producer.*—The outright purchase of goods by the export merchant reduces the foreign sales to a domestic transaction, as far as the manufacturer is concerned. The latter does not need to know the foreign consumer. The export merchant assumes all risks. The manufacturer does not worry about possible depressions in the market to which the goods are shipped. Usually he receives his money promptly within a few days after his goods leave the plant. He deals with a firm rated in Dun's or Bradstreet's, and known to him personally, and in many cases to his banker. He does not need to bother with the intricate details of custom-house and transportation formalities.

7. *Benefits to foreign buyer.*—An equally impor-

tant service is performed for the foreign buyer. In most cases the export merchant offers his goods for sale at a price expressed in the foreign money and delivered at some important trading center with which the buyer is acquainted. The transaction is, therefore, no different for the foreign buyer than is the purchase of similar goods from a local firm. The intimate knowledge that the export merchant possesses of the market in which he specializes enables him to grant more liberal credit than would be possible by an exporter whose principal interest was in the home market.

The large shipments which the export merchant makes enable him to secure more expeditious service, generally at lower rates, than an individual foreign buyer could secure. He offers the buyer a variety of articles, thus enabling him to mass his orders and secure the accommodations accorded a large account, instead of scattering them. In this respect, the export merchant is virtually an international jobber.

8. *Disadvantages of dealing through export merchants.*—The export merchant is indifferent as to who produces the goods he sells, as long as they satisfy his customers. He may, therefore, shift his purchases from one manufacturer to another, though this is not easy to do where he deals in trade-marked or patented articles.

Export merchants generally place their orders for unbranded goods. When the goods are in the warehouses, ready for export, the merchants have their

own trade-marks attached. Frequently the marks differ for the various countries to which the goods are shipped. This is a common practice among the German and French export houses. To some extent it is also practiced in England.

In Germany the manufacturer often attaches the exporter's trade-marks, and the goods leave the factory ready for the steamer, and are seldom as much as inspected by the export merchant. In some cases, where speed is essential, the goods pass directly from manufacturer to steamer fully addressed to their final destination. In the textile trade, the English mills generally mark the goods with any brand desired by the buyer. The American mills, as a rule, refuse to use any brand but their own.

9. *Trade-marked goods and export merchants.*— We must not overlook the fact that it takes a great deal of effort and expense to introduce new products into foreign markets. Only after the demand becomes large is there any possibility of profits. Moreover, in the case of trade-marked products, the manufacturer may at any time undertake to supply the foreign buyer direct. In that case, much or all of the export merchant's initial outlay becomes a dead loss. The export merchant is unable to control the quality or character of trade-marked goods. His knowledge of the foreign market may convince him that slight changes in them would increase their sale, but the manufacturer most likely will refuse to make them. In selling trade-marked articles, therefore,

the export merchant is in an unfavorable position.

Selling "short" is a common practice with export merchants. It is dangerous work when handling trade-marked goods, because the manufacturer may refuse to sell to the merchants, or delay the filling of orders, if, as sometimes happens, the domestic demand suddenly increases and promises to absorb the output.

10. *Export merchants prefer own trade-mark.*— The handling of identified products is, therefore, a difficult and thankless task. By attaching his own trade-mark the export merchant gains many advantages. He is no longer dependent on any one manufacturer. He may specify his own quality and pattern and give the order to any manufacturer willing to produce the goods at the lowest price. This, in fact, is the method followed in the English textile trade. The agents of the export firms send in sample patterns for which a demand exists in the foreign markets, or against which they have already sold many orders. The "shipping merchant" knows what factories in Great Britain are able to produce that particular pattern and quality of cloth, and places the order with them.

The English textile industry has come to realize in recent years that the old method of disposing of its product through export merchants is no longer satisfactory. World competition is too keen, and the industrialization of many sections of the world that before the war were entirely dependent upon im-

ported textiles has cut into the old market. Steps are now being taken in the direction of consolidation of small mills into strong groups, and of selling through direct representation and under manufacturers' trade-marks.

11. *The commission house.*—In the United States and Canada a large proportion of the export trade is handled by commission houses. A commission house acts as a middleman between producer and foreign buyer, and takes the place of the export merchant, but in buying or selling it acts not on its own behalf, but as an agent, for a fee. When acting as agent for the foreign buyer, the house is called in England a "commission agent," and in America an "export commission house." When acting as agent for the producer the name "factor" or "manufacturer's agent" is applied.

Strictly speaking, the house cannot act in more than one capacity in any one transaction; it represents either manufacturer or buyer. In strict honesty, no commission house can charge commission to any but its principal. But frequently, double commissions are collected, and legally no irregularity can be charged as long as a commission house has protected the interests of both parties. The difficulty of controlling the selling price charged by the commission house in those cases where it acts as selling agent has led many firms to disregard the principle of commission, and to invoice the goods to the commission house at a straight price, less than the regular list

price by an amount which in European concerns is designated as "discount," "rabat," or "decort."

The commission house, dating back only fifty years, has to a large extent driven the export merchant out of the export field in the United States.

12. *Commission house as agent of buyer.*—The commission house usually acts as a buying agent for some foreign firm. As such, its instructions may be specific or general. It may have been ordered to buy of a certain manufacturer, or to place the order at its own discretion, within certain price limits. The foreign importer may buy f.o.b., the commission house acting as agent, and receiving a stipulated commission on purchases. To prevent rebates to the commission house, the foreign importer usually insists on seeing the manufacturer's invoice. He may even reserve the right to inspect the books of the commission house from time to time, in order to ascertain the conditions of the purchase. In other cases, the importer may buy c.i.f., the commission house acting as principal and quoting a flat rate that includes the cost of goods, insurance, freight and commission. This method enables the importer to know the total cost of the goods, and even to sell them before delivery. The commission house is put in the position of a merchant who has sold short. The circumstances arising from this aspect of the situation, will be discussed fully under indents.

In either case, the commission house pays cash for its purchase, and finances the foreign importers by

drawing thirty-, sixty- or even ninety-day drafts, or by open credit. This latter method is not commonly found in the United States, but is widely used in Europe. Open credit is possible only when the relations between the importer and the commission house are of long standing, or of a permanent nature. Some European export merchants have contracts with foreign importers by which the latter bind themselves to secure all European goods through their offices. In such cases open credit is commonly used, and a maximum amount is determined beyond which the account will not be permitted to run. In addition to the buying commission, an agreed rate of interest of six, eight, and even nine per cent is charged on the open balance.

The buyer, or the employee of the commission house who executes the orders received from abroad, occupies an important position. He must know the demands of widely-separated markets, and the peculiar needs of the customers of the house, on the one hand, and, on the other hand, he must be thoroughly familiar with the sources of supply in the domestic market. Unless the desired source of supply is indicated in the order he can place his order where his judgment tells him he can strike a most satisfactory bargain.

13. *Manufacturer and commission house.*—The buyer, when he enters the market, will usually send out requests for quotations to various manufacturers, or, in the case of goods habitually handled by the

house he may place his order with the firm which in the past has given the most satisfactory service.

The manufacturer, on his side, may approach the buyer in two ways: He may send his personal salesman to show samples and make quotations, or he may put his entire export promotion in the hands of a local export agent. Export agents frequently represent more than one manufacturer in closely allied lines. They sell to the local export merchants or commission houses through samples and catalogs. In European ports, especially Hamburg, these agents maintain large display rooms. Both visiting foreign buyers and local export buyers find these displays helpful in making their selections. Many American textile mills maintain no selling organization, and depend upon such firms for their domestic and foreign sales. This method is not generally desirable, since it introduces still another middleman and increases the amount payable in commissions.

14. *Creating foreign demand.*—The problem of creating a foreign demand for a manufacturer's trade-marked product is not solved by dealing through an export or commission house. The manufacturer must start the ball rolling. He may undertake an independent advertising campaign, and even send out traveling salesmen, but it is more economical to coöperate with the commission houses and make up a promotion budget for the different markets.

15. *Commission house as selling agent.*—The com-

mission house may undertake an active selling campaign under order. The campaign will be carried on by means of samples, catalogs, advertising and traveling salesmen. A portion of the expense is usually borne by the manufacturer. In this case, the commission house becomes an agent and charges a commission on all sales. The manufacturer may confine himself to sending out salesmen to instruct the commission house representatives in the best way of selling his goods. In this way, the commission house becomes gradually indistinguishable from the factor, or manufacturer's agent.

16. *Advantages of export commission houses.*—Both manufacturer and foreign buyer are greatly benefited by the services rendered by these commission houses. The combination of many small orders into one large one, the advantages of cheaper freight and insurance rates, and the credit facilities available are the principal advantages to the buyer—the same as in buying from an export merchant. The benefit derived from having an experienced buyer to select goods in a far away and highly competitive market is also an important consideration. The manufacturer benefits by making direct domestic sales, and by being relieved of annoying details.

17. *Disadvantages of export commission houses.*—Lack of specialization is probably the chief objection to permanent dealings through such houses. The manufacturer will find that his goods do not, as a

rule, receive the selling attention he would like, on account of the large number of articles that the house handles.

The tendency toward specialization is increasing. One export commission house will handle only business in South America, or South Africa, or will concentrate on textiles, or food products. Some other house may handle textiles in China, hardware in Australia, and paper goods in England and on the Continent. But even so, the specialization in American houses is still relatively slight. England and Germany have gone further.

The commission house acting as buyer for the foreign concern is under a serious handicap when asked to quote prices. The foreign buyer must know what his goods will cost him, delivered at his warehouse, before he can make his calculations. This information the commission house is in a position to furnish only when handling staples subject to world prices, or articles upon which it has received binding quotations for a fixed period. The house cannot always know even then what the goods will weigh, what the packing will cost, or what the freight will be. The direct representative of a manufacturer or the salesman of an export merchant may close the deal long before the commission house can obtain the desired information.

Manufacturers dealing through commission houses, except where these are their authorized selling agents, may often find that inferior goods are getting the

orders because they are backed by better service. Orders received for a certain kind of goods may be filled by substituting "just as good" articles of different manufacture. To provide against this, manufacturers sometimes ask foreign buyers to send them duplicates of the purchasing order submitted to the house, and they reciprocate by sending duplicate invoices to the foreign buyer. In this way, direct relations are gradually built up. But many orders come in through commission houses from sources unknown to manufacturers, and the latter are, therefore, to a large degree dependent upon the good will of the commission houses.

18. *Commission houses widely used.*—Notwithstanding the disadvantages cited, commission houses are performing a necessary service, and are used generally in this country. Even very large American concerns, which are represented abroad by their own selling organizations, as is the case with the United States Steel Corporation, make use of export commission houses in certain markets that their organizations cannot effectively reach.

19. *Financial arrangements.*—The commission charged by these houses varies, according to the character of the goods handled, from one to eight per cent. Where a great amount of detail is required, as in the case of shipments made up of a large variety of small manufactured articles, the amount of detail and the risk involved in not filling the orders correctly is so great that a high commission is usually charged.

Staples are seldom bought on the f.o.b. basis. Because of the low margin of profit, the importer must know the cost of merchandise landed at the warehouse. Under the f.o.b. plan he would not know this until invoices and freight bills arrived. On the c.i.f. basis he knows the total cost at the time of sale and is in a better position to meet competition. Here no commission is charged, the seller's profit being included in the cost.

Financing by commission houses is generally done by draft on the buyer. It may be a draft on the buyer's bank based on a letter of credit issued by that bank to the buyer, or it may be a sight draft with documents attached. The draft is generally at thirty, sixty or ninety days with instructions to the bank to deliver the bills of lading, etc., to the buyer on his acceptance of the draft, or for further protection, the commission house will forbid delivery of the documents until the draft is fully paid.

The commission house is losing in importance through the growing tendency on the part of manufacturers to reach foreign consumers direct. More and more, therefore, the commission houses are abandoning their original sphere as buying agents, and are actively coöperating with manufacturers as selling agents.

REVIEW

Differentiate between an export commission house and an export merchant.

Explain how the increase in the use of trade-marks may have lessened the importance of the export merchant.

Explain how it is possible to create a foreign demand for one's goods although using middlemen in placing the goods on the market.

Give the advantages of dealing through export merchants from the point of view of the buyer.

CHAPTER IX

DIRECT EXPORTING

1. *Direct relations desirable but costly.*—The question as to whether direct or indirect relations with the foreign market are likely to be the more profitable is one that cannot be answered without reference to other considerations. It depends upon the character of the market at home, the possibilities of development there and abroad, the output and turnover, the capital available, the securing of the proper personnel for an export department, to mention only the most important factors.

The last is not the least difficulty in the path of direct exporting. Thus far, generally speaking, Americans have been poor linguists, not inclined to spend long years abroad nor to study thoroughly the intricacies of the usages of foreign markets. Salaries at home have been too high to make a prolonged stay abroad attractive, except to those who find additional compensation in a sojourn among peoples of a different culture.

The export commission house, with its organization already built and operating, can take on additional products with little extra charge and, up to a certain point, handle them more economically than the manu-

facturer who has to maintain a separate selling organization for the purpose. But the more rapid expansion promised by the latter method will often be thought to outweigh the initial handicap in financing, as well as the early conveniences furnished by the commission houses.

2. *The buyer seeking the seller.*—It is by no means always necessary for the seller to seek the buyer. Members of European importing firms, or their representatives, visit America to get in touch with the manufacturers of articles in which they specialize. Paris, Hamburg, Leipzig, London and Lyons are visited regularly by buyers from North, Central and South America, and to a limited extent from Asia, Australia and Africa. The sample fairs, and the information bureaus of commercial museums and of chambers of commerce play important rôles in bringing these buyers in touch with the manufacturers.

Many of the larger importers of Australia, South Africa and British India maintain permanent branch offices in London. Some foreign offices are found in the United States, but they are relatively unimportant.

3. *Selling by mail.*—Selling by mail in foreign countries introduces two or three features that are not met in domestic mail selling. The time elapsing between advertising or circularizing and the receipt of orders is relatively, of course, much longer. Then, it is highly important that the advertising matter should be adapted, both in language and thought, to

the readers for whom it is written. Nations differ, as we know, not alone in language and laws, but in their customs and outlook upon life. To do business successfully by mail with foreign readers, it is indispensable to study their ways and manner of thought, and to adopt a sympathetic and courteous attitude toward them.

Advertising in export magazines and technical journals will frequently bring surprisingly good results. Where the market is highly competitive, and traveling salesmen of other foreign or domestic concerns are regularly on the spot, advertising as the sole means of promotion will naturally prove inadequate.

4. *Mail-order business.*—Selling directly to the consumer by means of advertising is a phase of foreign trade that has received too little attention from American firms. The American patent-medicine firms seem to be the most energetic in this form of trade development. The introduction of mail-order methods in European and South American trade may well claim the serious consideration of the American exporter.

Selling by mail is by no means, as many suppose, an American novelty. France, Germany and England have their mail-order emporiums. One large Paris mail-order house sells gowns, hats, jewelry, lingerie, and toys by catalog in every country of Western Europe. The mail-order business of these European concerns is especially developed in the colonial possessions, where purchasing power is great

and few well equipped stores are found, and then only in isolated population centers.

Recently, French mail-order houses have circularized widely in the United States. A large grower of bulbs in Holland is selling bulbs by mail-order in this country.

The advantages of mail-order business are obvious. Cash is received before the goods leave the storehouse; small parcels are easily handled and require little customs formalities; the catalog may list and picture many more articles than it is necessary to carry in stock, since they may readily be obtained as soon as a demand for them arises. On the other hand, mail-order trade involves a large amount of detail and the employment of large office forces. A disadvantage of the foreign mail-order business is that packages can be "entered" only at specified post offices in the foreign country, where the customs inspection may be had. It is necessary, therefore, for the consignee, if he does not live at one of these places, to appoint a representative there, to receive the goods and forward them.

The European mail-order house frequently sells C.O.D., or, as it is called on the Continent, *contre remboursement*. In this case, twenty-five per cent is usually required with the order, the balance to be collected upon delivery. This small payment is an effective check on refusals, and will approximate the expenses involved in shipping and returning the article.

5. *Establishing retail stores.*—Retail establishments are maintained in many of the larger cities of Western Europe and South America by some of the well-known shoe manufacturers of this country. The method should not be attempted by any manufacturer who has not followed the same policy at home, for retailing is full of pitfalls for the unwary. For selling highly specialized goods, like machinery, on the other hand, in the use of which the customers must be trained, which need the care of specialists to be kept in good repair, and which may perhaps be paid for by partial payments, retail stores may be the only effective selling method. The largest manufacturers of sewing machines, for example, maintain retail establishments in all parts of the globe, selling in many cases on long-extended installments. The method necessitates a huge investment in plant and stock, and entails high charges for insurance, depreciation, interest, and salaries of sales people. Few articles are adapted to this method of selling.

6. *Consignment.*—The easiest way to introduce goods into a foreign market is to send them on consignment. Foreign firms are usually willing to display and stock goods at no cost to themselves. The more vital question is: Will the goods be sold, will the consignee, not having invested, have the same interest in pushing them, that he has in pushing those in which his capital is tied up?

The story is told of an exporter of farm machinery who used the consignment method of introducing his

product in Russia. Some fifteen year later, it was found that in several small towns machinery that remained unsold had a place of honor in the establishment to which it had been shipped. No attempt had been made to sell, the machinery was looked upon as too valuable an article of display, giving the store an air of importance.

Unsold goods in foreign markets represent a much greater loss than at home. High freight rates and, frequently, high duties have added to their cost. It is difficult for the exporter at home to know how to shift the goods to some other place where they may be sold. He has not the knowledge of other near-by markets. Generally he must fall back on a forced sale in the locality where the goods were placed in consignment, possibly an auction. This means spoiling the market for later sales.

Naturally, the consignor is at the mercy of the consignee. In the sale of manufactured goods not subject to publicly-established prices, the consignee may sell at a better price than he is willing to remit to his principal. In the case of a forced sale, this is no uncommon occurrence. Some exporters set a minimum price below which they will not allow the goods to be sold, but this may prevent a sale at a slightly lower price, and in the end involve a greater loss. Consignment is, therefore, not used to any large extent in selling American manufactured goods, except in "dumping," or in the case of transactions which miscarry. It is an emergency measure.

In short, the inexperienced exporter should avoid consignments as one of the dangers of foreign trade.

European exporters not infrequently undertake what are called *conto meta* transactions. This is a reciprocal consignment, or a commission sales agreement. Usually, both charge commission on all sales, while carefully-kept accounts draw interest on open balances. Such agreements between firms of different countries are usually for indefinite periods, and are undertaken only by houses of established reputation.

7. *Selling through branch houses.*—When technical experts are needed to assemble goods after arrival in the foreign market, and large numbers of repair parts must be kept in a centrally-located place within short distance from the local distributing centers, branch houses are necessary to the exporter.

The branch establishment may become the center of sales campaigns. It may build its own force from among native salesmen, and handle all business in its territory. Orders may then be filled from local stock, or from the home factory. Many firms quote two prices, one, the lower, for goods shipped from the factory, and the other, or higher price, for urgent shipments that must be filled at once from the branch house. The additional charge is made to cover interest, insurance, depreciation, and expenses of storage.

The branch may, on the other hand, be little more than a storehouse and reshipment center, and the

actual selling may be in the hands of an entirely different organization directed from the home office.

The United States Steel Corporation maintains about forty branch offices and warehouses, located mainly at coast points. Large stocks of staple products are kept on hand. The sales are handled through branch offices direct, through branch office agents, and through local houses. Some business, as, for example, a large government contract, is handled direct from the home office.

8. *Difficulties of the branch-house method.*—The branch-house method of developing a market is the most intensive method of building foreign sales. It is the most costly, and the most fraught with risks. All the problems that must be shouldered by a local distributor are by this method assumed by the exporter. Special knowledge is required for this undertaking, and the problems of supervision and control are complicated and difficult.

Nor is this method suited for all markets and all localities. It is obvious that, unless the market can absorb a sufficient quantity of goods, it will not pay to open up branch establishments, either wholesale or retail. What usually happens is that it is found possible to open branches in a few localities. The other sections of the country are then supplied through the already-established local firms.

9. *Advantages and disadvantages of branch houses.*—There are many advantages in this method.

The branch can establish more intimate connections with the market. The methods of display, the methods of selling the service that should go with the article sold, can all be more readily influenced and controlled than if the exporting firm had no such local offices. Whatever changes in taste or popular desires develop, may also be more quickly discovered. In short, the exporter is in closer touch with his market.

But, on the other hand, the disadvantages are so many, the expense and risk so great, that this policy should be adopted only after carefully weighing all that is involved. It is also quite easily seen that some products will not be suited for this method of selling. Products of small value, which are sold always as "service goods," for which no one ever shops around, and which are not sold on the basis of a trade-mark, it will not pay to sell in this way. Collar buttons, needles, and other articles of this type fall into this classification.

10. *Branch factories.*—Where competition is keen and rates and tariffs are high, it may be advisable to locate branch factories in the foreign markets. The International Harvester Company has such plants in France, Germany, Sweden and Russia. The Ford Motor Company, the British-America Tobacco Company, and the Singer Sewing Machine Company are other notable examples of corporations maintaining foreign branches and factories.

Branch factories, by employing the lower-paid local

labor and escaping the higher import duties, may cut production costs. The proximity to the consumer makes it easier to adapt the products to the needs of the market there. The fact that the products cease, in a sense, to be "foreign" products may also have a salutary effect upon sales. The Singer Sewing Machine Company's policy is to emphasize the domestic nature of its product, and to avoid all reference to the foreign connections of the local concern. Few buyers in the country where the company operates branch factories realize that they are dealing with an American enterprise.

11. *Separate companies.*—When the foreign organization has become very large, with many branches and branch factories, it may be desirable, in order to secure administrative simplicity, to organize a separate company to handle all foreign business. The foreign sales of the United States Steel Corporation, with few exceptions, are handled by the United States Steel Products Company, which has charge of all the foreign offices, and operates steamship lines and railroads.

Another method is to organize a separate company to handle the sales in each country or section of the world. Legal considerations may dictate such mode of organization. Because the laws of many countries are unfavorable to foreign corporations, separate incorporation may be the only way to escape double taxation. The various units of the Standard Oil Company control many such separate companies.

The American Radiator Company, facing such restrictions, organized the "National Radiator Gesellschaft, M. B. H." The International Harvester Company is known in France as the "Compagnie Internationale des Machines Agricoles de France," which has five branches in France and Algiers.

The financial relations between the parent company and the branch companies differ greatly according to what it is desired shall appear on the balance sheets. Some branch companies buy at cost from the company, others at an arbitrary price, and still others at a price fixed from time to time according to the conditions of the local market. But whatever the financial relations of the branch company to the parent organization, no new element has been introduced into the marketing of the goods. The branch company merely takes the place of the export department.

One important consideration is the effect of the separation of foreign and domestic business upon the taxes to be paid. Double taxation, that is, the levying of taxes by more than one government upon the same profits earned, is a common occurrence. Although, through international conferences, the International Chamber of Commerce and the League of Nations have attempted to lay down certain principles, which, if adhered to by the various governments, would do away with this problem of unfair taxation, the situation has not been much improved. The organization of separate companies may sometimes

be found to be the only way out of the difficulty.

12. *Selling through local agents.*—Branch houses are possible only to concerns of large capital. The great advantage of this method lies in the fact that the concern is represented locally, gets reliable market and credit information on the spot, can push sales more intelligently and persistently, and can also bring into the transaction of business that personal touch which plays such a large part in building good will.

Though local agents cannot take the place of branch houses, they do to some extent perform the same valuable services. It is of prime importance to select the right kind of local agent, and it is no easy matter to do so. Manufacturers should be on their guard against the class of men, plentiful in number, who, after having made a failure of other lines of business, establish themselves as representatives of foreign firms as a last chance. A good quality of paper and a high-sounding letterhead impress inexperienced foreign business men. The American exporter cannot, however, afford to be negligent in the matter. The local business world will judge the reliability of the firm by the kind of representative it chooses, and its task will be harder if it assumes a handicap.

The manufacturer may choose as agent a large wholesale firm. This has an apparent disadvantage. The competing wholesale firms may not care to handle the article under those conditions, and may look

around for another exporting manufacturer making a similar article.

A good agent can be of great assistance to a manufacturer. He should give detailed information about prices, customs, quality, packing, and the financial standing of customers, and should be expected to make suggestions for the improvement of the product and methods of handling it.

13. *Exclusive agents.*—The manufacturer will usually require the agent to handle no competing lines. This is not always essential. Some agencies successfully handle a large number of competing lines. This is notably the case in hardware and machinery, in Europe. These lines require highly specialized knowledge, and the agents find it impossible to give the buyer satisfactory service when confining themselves to the products of but one firm. The elimination of competing lines may, however, act as an incentive to greater activity.

As a rule the agent will try to obtain the "exclusive agency." This is almost always undesirable from the manufacturer's point of view. The agent may wish merely to prevent some other firm from introducing the product, and may have no intention of bestirring himself in an unusual way.

The manufacturer may find it advisable to supplement the work of the agent by the use of traveling salesmen, or by advertising. The agent may, under these circumstances, decline in importance, and confine himself solely to collections, delivery of goods,

and giving credit information. An agent of this type rarely receives commissions on sales not passing through his office.

14. *Financial and legal phases of exclusive agencies.*—The exclusive agent expects a compensation on all sales in his territory, whether they were made direct from the home office, or through the agency. In such cases it is necessary for the home office to keep close watch on all sales through export commission houses, so that the destination of goods may be known. The exclusive agency contract should be very carefully drawn, and sworn to before a notary, for there are a few important elements that, if not clearly defined, are bound to cause trouble. The boundaries of the territory should be clearly defined, and the duration of the contract definitely set. To cover the liabilities of each party, clauses regulating the exact status of the agent, and the basis of his compensation are necessary.

One of the most important provisions of the exclusive agency contract is that relating to cancellation at the will of either party. This should be allowed only on advance notice of from three to six months, and in order to maintain sales during the period, the manufacturer should give the agent a reduced commission on his net sales for a period of three to six months after the cancellation of the contract. This, combined with the provision that during the extended period the agent shall not solicit business for others, offers an inducement to the agent to

continue sales effort until the actual expiration of the contract.

Where the agent is entrusted with all development work, his commission is usually increased to compensate him for initial outlays. It is common for an agent to bind himself to spend a minimum sum each year in promotion. This minimum may be a stated sum, or a percentage of total sales, five per cent being considered a reasonable demand in many lines.

The agent may be of great service in handling collection items. The goods may be billed to him with instructions to make no delivery until payment has been received. Especially where no "to order" bills of lading are permitted, and also where the banking system is poorly developed, such an arrangement proves very satisfactory. But even where banking facilities are wholly adequate, the handling of drafts and documents through the agent may have its advantages. The agent can use his discretion when goods are refused, or payment is not promptly made. The bank is interested only in collecting the item; the agent considers future sales. He is in a position to make exceptions in worthy cases.

15. *Del credere.*—When the agent undertakes to protect his principal against credit risks he enters into a *del credere* agreement. For this service an additional two or three per cent is charged. This *del credere* agreement relieves the manufacturer, but places a heavy risk upon the shoulders of the agent.

Unless the agent has sufficient capital, his security may mean very little.

Whenever possible, the American exporter will do well to select an American citizen as his representative. The legal relations and the settlement of disputes are much simplified if agent and principal belong to the same nationality. This is especially true in non-Christian countries, where foreigners are judged according to special laws fixed by treaty.

In some localities, it may be wiser, even necessary, to carry on the business of an agency or branch house through natives. Only a special inquiry or investigation will enable the exporter to decide this point.

16. *Proposals.*—In many countries, materials for the army, the navy, or for harbor boards and other official and semi-official purchasing agencies, form an important part of the imports. The contracts to be let are usually announced publicly, and a date is set when all bids must be submitted. In some few countries, as in Argentina, a permanent commission controls the purchasing of all government requirements. The *United States Commerce Reports* announce the more important proposals opened, while other agencies in this country, like the Philadelphia Commercial Museum, keep their members informed.

Local representation is the most effective method of handling this type of business. It may be necessary to act without delay and secure more detailed information before actually entering a bid. A

knowledge of the local manufacturers and their conditions of production is beyond doubt helpful. Then again it may be necessary to use official forms in submitting bids.

In asking for bids from oversea firms, it is customary to allow the competing firms to insert the "fluctuation clause," by which a certain allowance is made for future fluctuations in price. As a rule, the contract is awarded to the lowest bidder. Nevertheless, in order to combat unfair undercutting and dumping, the practice is becoming more and more general of awarding the contract to that firm whose bid approaches most nearly the mathematical mean of all bids received. In order to guarantee proper delivery, a payment or a bond, varying in amount from five to ten per cent of the value of the contract, is often demanded.

Unfair competition and dumping practices are common in bidding for government contracts, since prices may be cut without fear of injuring the general market. In Great Britain it is not unusual to find the "British manufacturers' clause," which limits competition to British manufacturers.

17. *Traveling salesmen.*—Direct selling may be accomplished through traveling salesmen. Such salesmen can never quite supplant local permanent representation, but they may prove valuable in securing up-to-date information in regard to markets and credits, and in establishing a personal relationship.

The expenses of traveling salesmen are necessarily high. In South America and the Orient, trading centers are widely separated, and much time is spent in travel. The prices in South America are, moreover, much higher than in the United States. To the normal expenses for travel and entertainment must be added the tax which many countries levy on foreign salesmen. This is the case in Sweden, Norway, Denmark, Holland, Switzerland, Portugal, Brazil, Uruguay, Paraguay, Argentina, Bolivia, Mexico, British Columbia, British South Africa, and New Zealand. In addition to the state or federal tax, municipal taxes are sometimes found. The State of Buenos Aires charges a traveler's tax of $140. This tax may be a monthly charge, as in Sweden, or a yearly payment, as in Switzerland. In France, foreign travelers enjoy the same treatment accorded French commercial travelers in the country from which they hail.

Samples carried by traveling representatives are frequently subject to duty, though drawbacks are in many cases allowed if re-exportation takes place within a prescribed period. Samples "without value" are usually admitted free, but the definition of this term differs greatly. In Cuba, samples of textiles or carpeting are considered as of "no value" if not exceeding 40 cm. square, and provided they have been spoiled for commercial use by slashes of at least 20 cm. length. In most countries "without value" is interpreted to mean of negligible value, or else

samples must be conspicuously marked "sample."

In all cases, the traveling salesman should provide himself with duly viséed certificates of origin. This is necessary, both to satisfy the requirements of foreign customs services, and to enable him to reimport his samples into the United States upon his return.

REVIEW

Make a short list of some of the goods that, in your opinion, might be marketed by mail in South American countries.

State the dangers of the consignment method of selling.

State under what circumstances you would recommend the establishing of branch houses.

Describe some of the more important features of contracts entered into with exclusive agents.

Explain the conditions that must prevail to make selling through retail establishments advisable.

CHAPTER X

THE TRADE IN RAW MATERIALS

1. *The growing importance of raw materials.*— Before the industrial revolution, production was based almost exclusively upon local sources of supply. The wool growers of Great Britain sold their wool to the clothiers of that country, and British woolens enjoyed a high reputation in all parts of Europe. Production in those days differed from present-day production also in that it was largely production to order. Little was produced for stock, almost everything was fashioned from the raw materials after the finished goods had been sold.

Modern production differs from production before the machine age in those two respects. Production at present is largely for stock, and is carried on in such large volumes that local sources of raw material supply are no longer adequate. The use of machinery, the full benefit of which can only be secured if employed continuously and at maximum speed, has thus created two problems—a need for markets, a demand for raw materials. To this must then be added the third problem—how to produce efficiently, that is, how to make the most profitable use of the machine. These three problems will be

with us as long as machine production exists, but their relative importance will be ever shifting.

First, the production problem assumed major proportions. How to make the newly-discovered force take the place of handwork was the initial question. But the more effectively this problem was mastered, the more insistent became the problem of marketing the ever-increasing volume of goods.

It may be said that selling was beginning to be a major problem after 1851, the year of the first international exposition in London. At first the solution was sought in free access to all markets. The period of free trade, and of the reaction against tariff restrictions, came about during the sixties. But for various reasons, too many to examine at this point, a reaction against this free trade movement set in. About 1884, began the new race for higher tariffs, accompanied by a reaching out for colonies in order to provide markets for the increasing overproduction.

This was the period when England, France and Germany took possession of the entire continent of Africa, and India passed under the direct control of Great Britain. It was also the period during which the United States acquired the Hawaiian Islands and the Philippines, and drove Spain out of Cuba.

Our present period is marked by the aftermath of this imperialistic period. The choice locations of the earth, the main sources of raw materials, have passed into the hands of a few nations. The control of the

most important raw materials has passed, in this manner, into the hands of these same nations.

2. *The situation in part inevitable.*—The uneven distribution of the earth's riches makes it inevitable that some nations will have a plentiful supply of certain raw materials, while other nations will be dependent upon outside sources. Nothing man can do can change the fact that tin is found in the Malay Peninsula and in the Dutch East Indies, and almost nowhere else in paying quantities. No human causes are responsible for the absence of rubber producing plants from the temperate zone. These differences are the result of natural causes.

The increasing dependence of densely-populated industrial countries upon the foodstuffs produced in the less-thickly-settled countries of the world is also an inevitable result of the pressure of population upon local sources of supply. As long as the available supply of needed foodstuffs and raw materials is allowed to flow into the open market, where all who need them can obtain them, the problem of dependence will still exist, but from it there will arise no international friction or ill will.

3. *The problem of control.*—An entirely new element is thrust into the picture when, in some way, the flow of the necessary products becomes restricted. Then the accusation will be made, and often with justice, that some group, or some nation, is taking unfair advantage of the necessities of others. The

wheels of industry will turn more slowly, in some centers of production. The prices of foodstuffs will rise, visiting hardship upon thousands of workers, and demands for reprisals, for retaliatory measures, for war, may be heard.

Thus, the raw material situation has become one of far-reaching importance, and an examination of the various ways in which the free flow of these raw materials may be restricted is of interest to all business men, whether their activities are confined to the domestic market, or extend to foreign markets.

4. *Political control.*—In general, it is possible to distinguish between three different types of control—political control, financial control, commercial control. The most ancient of these is the political control, or the restrictions placed in the way of the free flow of raw materials, resulting from the activities of the governments exercising jurisdiction over the territories where the materials are produced. This, indeed, was at one time the generally-accepted treatment accorded both raw materials produced at home and those produced in the colonies. It was part of the philosophy of what was called the mercantilistic system that a nation gained in strength to the same degree that other nations were injured. One of the most effective methods to attain this end was thought to be to prevent other nations from obtaining the raw materials they required.

As late as the end of the seventeenth century such

restrictions were generally found in all European countries and their colonies, usually in the form of export duties, which greatly increased the prices of the raw materials to foreigners. One reason for the popularity of these export duties lay in the fact that they constituted a tax easily collected with little expenditure.

By 1890, practically all these export taxes had disappeared, and only very few are found to-day among the western nations. Export taxes are found, however, in the colonial possessions. In countries that are sparsely settled, and where little money is in circulation, export taxes levied at a few of the large ports, where merchandise changes hands for cash, become the ideal method of collecting revenue.

But, again, the number of these taxes is diminishing, and they do not play a very important part in the cost of the materials. The reason lies in the fact that, unless the country enjoys a monopoly, it is not wise to place a heavy tax upon products that are sold in the open market. The tax will rest entirely upon the producer. In case the tax has the effect of raising the world price, it is certain that other producers will benefit, and that production elsewhere will be stimulated, to the loss of the country imposing the tax.

A striking example was that of Bengal, where, in 1860, an export duty of 20 per cent ad valorem was imposed upon saltpeter with the result that, by 1867,

the exports of this product had decreased by two-thirds and the producers of Bengal had been permanently injured.

5. *Colonial preferences.*—From the point of view of international commercial relations, the colonial preferential duties are of a more serious character. These are commonly found, and, in practice, amount to allowing the mother country to secure raw materials at a lower cost than competing industrial states.

The export duty on tin ore from the Federated Malay States, being high compared with that on the refined tin, placed a premium on establishing smelters near the mines, and made it necessary to close down the smelters established on the American East Coast. But Great Britain and Australia, both of whom enjoyed preferential rates, remained unaffected by the export tax.

Here we have then an example of an attempt to benefit one group at the expense of another. Such measures may become a serious cause of international friction. In many countries the tariff law makes it possible for the executive arm of the government to retaliate where such discrimination is discovered.

The Tariff Act of the United States empowers the president to impose new or additional duties of not more than 50 per cent ad valorem on all products imported from a country which discriminates against the United States "in customs duties or other charges, or in classifications, prohibitions, restrictions

or regulations of any kind." But although retaliation is thus possible it is not readily resorted to. It is always better to avoid open conflict and to settle such matters by peaceful agreement.

6. *Financial control.*—The cases of export restrictions resulting from political control are not many. Governments cannot afford to justify the accusation that they are discriminating unfairly against other nations. More common, and more serious in their effect, are the cases where financial control leads to a manipulation of the flow of raw materials.

The object is in such cases to influence the market price, and the method followed is, as a rule, to limit the amount placed on the market. This may be done by limiting production, or by buying up a portion of the total amount produced, and storing it until the conditions of the market make a profitable unloading possible. Many schemes combine both of these features.

In recent years, both the rubber and the coffee producers have resorted to such restrictive measures. The rubber producers have been forced to abandon the restriction scheme after several years of highly exciting experiences. But there are many products still subject to such manipulation.

7. *The economic justification of such restrictions.*—Before speaking too harshly of such undertakings in foreign lands, it is always well to remember that the farmers of the United States have for years attempted to commit the government to price-fixing

and surplus-purchasing measures, which to the outside world would have appeared quite as objectionable as the Stevenson Rubber restriction and the Coffee Valorization plan appear to the people of the United States.

It is also well to remember that the countries of Europe do not look with enthusiastic approval upon the Canadian Wheat Pool, which controls a substantial part of the Canadian wheat crop. Although the claim of the defenders of the pool is that it is merely a method of "orderly marketing," it does not seem so innocent to the nations that purchase the wheat. They see in it a method to maintain the price of wheat, and to place control of the wheat crop in the hands of the producers.

Seen from the side of the producers of rubber and coffee, there is every reason why they should agree to limit production and should attempt to regulate world prices. Such tropical and subtropical products are cultivated under peculiar conditions. It takes from six to ten years for a plantation to come into full production. During this unproductive period, enormous sums must be invested in plants, and in labor to keep the plantation free from wild vegetation. One may undertake to plant young trees when the market price amply justifies it, but once the planting has been done, there is no turning back. For six or even ten years, supposing prices stay high, others will be encouraged likewise to increase their plantations, with the result that, when all

these new plantings come into production, the total output will be suddenly increased, and for a succession of years will continue to increase. This may mean, and usually does mean, a progressively-depressed market. There is no escape from this situation. The solution, so it is claimed by the producers, and with a good deal of truth, is restriction of output.

Under the Stevenson plan this situation was largely met by establishing a quota that no producer was allowed to exceed. By changing the quota from time to time, as market conditions warranted, it was hoped to keep the market price on a firm and even keel. Theoretically, this would have benefited producers and consumers alike.

The only thing that was wrong with the plan was that it did not work, at least not as expected. Like all committees, the Stevenson committee usually acted when the time for action was past. The result was that, as prices increased, additional restrictive measures made prices jump still higher. When the committee got ready to release more rubber, the decline had already started and the committee action made things worse.

Protests were made in all rubber-consuming countries against the rubber restriction scheme, and it finally broke down. But the reason for its failure to continue did not lie in a generous response to the protests from the United States and elsewhere.

8. *Restriction overreached itself.*—The breakdown must be ascribed to two factors. The first was

the ineffective way in which the scheme was operated. But, of more importance is the second factor, which was the absence of anything that could be termed a monopoly on the side of the producers subject to the restrictive measures.

The growers of rubber in the Dutch East Indies refused, from the first, to join in the scheme. They were low-cost producers, and were quite willing to have the British growers step out of the picture. When prices went sky-high, new plantations were started in the Dutch East Indies, where especially the native production reached unheard-of quantities. Had the Stevenson scheme lasted a few years longer, it is quite conceivable that almost the entire world's demand could have been satisfied from the European and native plantations in the Dutch East Indies.

Here lies the safety valve of all such restrictive measures. Restriction always calls forth increased production elsewhere. It turns potential producers into actual ones. The experience repeats itself in all products that can be produced in more than one locality.

The producer of scarce minerals is, therefore, in a much more favorable position to control the market than the producer of agricultural products. Minerals cannot be reproduced at will. Herein lies the strength of the tin, the copper, the platinum and the helium producers.

In this connection one point must not be overlooked. Such financial control measures are not dis-

crimination measures. The rubber manufacturers of Great Britain bought their crude rubber in the same market, and for the same prices, as did the American manufacturers. The cry of anti-Americanism was, therefore, a good war-cry, but was founded upon a misconception.

9. *The effects of price control.*—Higher prices will not only call forth greater production. They will also tend to decrease consumption. The utilization of reclaimed rubber was greatly encouraged by the increase in crude rubber prices, and many articles are now made from reclaimed rubber that formerly were fashioned from new rubber. This means that the demand for crude rubber is now smaller than it would otherwise have been.

The United States, being the largest consumer of both rubber and coffee, feels the effect of any increase in price of these raw materials more than any other country. Yet, we must not allow the total amount of money involved to impress us unduly.

Assuming that such price-control measures can be operated efficiently, the result is to insure a fast and a fairly steady price to the producers. There would seem to be a decided advantage in such control measures for the consumers, as well.

The rubber manufacturers of the United States would not object to a price of, say, 25 cents a pound for crude rubber. In fact, they would gladly pay more, if, by so doing, they could be insured against fluctuations in the price. Nothing is more costly and

more disturbing to business than excessive fluctuations in prices of raw materials.

If crude rubber drops from $1 to 25 cents within the course of a few weeks, the manufacturers of tires suffer, along with the producers of crude rubber. All inventories of finished products, as well as of crude rubber, must then be revalued and the losses written off. Hand-to-mouth buying would have saved the manufacturers this loss, but such a policy cannot be pursued when a large factory must, at all costs, be kept fully supplied, when supplies come from a distance, and when the demand for the finished product is highly seasonal.

There is yet another aspect to the situation, often forgotten. If the coffee growers of Brazil are financially weakened because of a temporary overproduction of coffee, with a resulting collapse of prices, who is really benefited? The consumer in the United States may pay slightly less for his cup of coffee. But coffee is only one of many daily expenditures, and he is not likely to feel the change very much.

It is different with all those who are exporting to Brazil. The manufacturers of textiles, of farm machinery, of automobiles, and of office machinery, who found a profitable market for their products in Brazil when financial conditions were sound, will find their market practically wiped out. The investor who has purchased the bonds of Brazil, or of any of the political subdivisions of that federal state, will find his investment in danger. The benefits that the

United States would receive from a reduction in the price of coffee must, therefore, be weighed against the disadvantages that unavoidably accompany the event.

Once it is clearly recognized that the interests of the producers and those of the consumers of raw materials are not wholly antagonistic, the question of the stabilization of production will be brought one step nearer to its solution. The solution will, no doubt, ultimately be found in coöperation between all those who are interested in having the volume and the price of the raw materials in question kept as nearly free from excessive fluctuations as possible.

10. *Commercial control.*—The free flow of raw materials is also limited by a third set of conditions which may be called commercial control. Habit plays an important part in all commerce, but most of all in the trade in raw materials. Such goods are sold on the basis of quality, in large quantities, and with small margins of profit. It is essential that those who buy and sell, or who act as agents for others, be well versed in all the intricacies of the trade and all that concerns it, and know the products well.

A manufacturer, wishing to purchase raw materials, will, by preference, turn to those who have such expert knowledge, for in no other way can he be certain that he does not buy trouble along with the materials.

A country or a city that has for generations been the center of the trade in a given class of raw ma-

terials, has an advantage over other market centers which cannot very easily be ignored. Great Britain, in virtue of the fact that it was industrialized before the other countries of Europe, that it has extensive colonies, and for centuries has had a large and efficient merchant marine, has been a center of the trade in raw materials for generations.

Other countries are equally important in certain other trades. Amsterdam in the tobacco, cocoa, spice and tin trade, is of outstanding importance, while Leipzig remains, notwithstanding the upheavals of the war, the center of the world's fur trade.

During the war many products reached the United States by more direct routes than in the pre-war times. The Dutch East Indies, British India and Australia for a time shipped their raw materials across the Pacific to San Francisco and Seattle. But when peace came, much of this trade returned to its old channels, and the products again reach America by way of Great Britain and Holland. The advantages of dealing through established channels proved too great to allow the trade to shift its course easily.

11. *The elements in commercial control.*—The established trading centers derive their powerful commercial hold on the trade from various factors.

In the first place, it must be remembered that in these trading centers there has grown up a body of men thoroughly familiar with the trade. The brokers, the warehousemen, the bankers, all know the

products, their value, the factors influencing their value, and how to buy and sell them.

This condition has a great practical significance. The brokers who represent the buyers, often more than 3,000 miles away, occupy a position of great responsibility. The amount of money involved is large and slight differences in quality may affect the value of the products greatly.

This fact is especially true in the case of goods sold at auction. Here, as will be explained later, inspection of the goods is necessary, and the seller assumes no responsibility whatsoever regarding quality. No one can buy under those conditions except through experts of proven honesty and financial ability.

The knowledge the warehousemen have acquired enables them to handle the products efficiently, and to attend to any repacking or rebaling according to the customs of the trade. When the goods are properly cared for, and stored in a manner to prevent undue deterioration, the warehouse receipts issued against them will be accepted by the banks as collateral against loans. But here, again, a banker not accustomed to such transactions, or unacquainted with the products in question, will not be inclined to allow as large a loan as a banker familiar with that particular trade. The insurance companies will also be more readily inclined to quote reasonable rates upon goods with which they have experience.

When, finally, we consider transportation facili-

ties, we see how the concentration of the trade in certain staples in a few localities has called forth, in many cases, specialized equipment for transportation, or for loading and discharging. What is equally important is that an active, competitive freight market is created, where the most favorable terms can be obtained for the transportation of the products to the market, and from the market to their final destination.

Cheap transportation is possible only when a return cargo can be provided for the vessels carrying the raw materials to market. One of the main reasons why Great Britain became a world market for raw materials is found in its ability to provide a return cargo for the vessels by means of its coal. English coal is found in all the important ports of the world, where it arrives as a return cargo—a paying ballast.

In recent years, the German coal syndicate has succeeded in furnishing the vessels unloading in Rotterdam with cheap Ruhr coal as a return cargo. The Germans are interested in drawing the trade in raw materials away from Great Britain to the ports of the Continent, and are willing to make financial sacrifices to supply this return cargo, so that the incoming raw materials may be carried more swiftly and more cheaply.

12. *The financing of production.*—To all the factors that contribute to directing the trade in certain raw materials in definite channels, must be added the

effect of the methods of financing their production. We are familiar in the United States with the way in which the storekeeper in the South, through loans secured by liens on the cotton crop, becomes the collector of cotton, and one of the channels through which this cotton finds its way into the world markets.

On a much larger scale, but essentially in the same way, other raw materials such as coffee, tobacco, and copra, as a result of the method of financing their productions, pass through the hands of those supplying the necessary funds. The coffee of Central America at one time was shipped largely to Europe. Very little of it reached the American market. The growers in Central America were financed largely by European firms, which were reimbursed through the proceeds of the crop. The coffee was turned over to their agents near the plantations. They exported it to Europe, sold it, and remitted the proceeds, after having deducted all expenses, the interest on the loan, and such a portion of the principal as had been agreed upon.

The "Cultuur Banken" in the Dutch East Indies, in a similar manner, finance the crops in the Dutch East Indies. The various branches of the Belgian banks follow the same methods in developing the agricultural industry of the Congo.

The security demanded will, of necessity, be more than the year's crop. Loans on tropical enterprises run for more than one year and are used to finance not only current outlays, but capital investment, as

well. The financial houses undertaking such financing will demand, therefore, a certain right of supervising the operations of the concern, the right to interfere, if unwise expenditures are contemplated, and above all, the exclusive right to market the entire crop.

Such banking houses, having their headquarters usually in London, Amsterdam or Antwerp, will naturally wish to transport the goods to their own country and city, there to be sold under their close supervision.

It is possible to change the direction in which these raw materials will flow. But, often it can be done only in one of two ways. The producers may become financially independent and may decide to sell their products at the port of exportation or to send them on consignment to some other country. This is what is occurring in the wool trade of Australia.

In certain cases, other financial houses may undertake the financing of the crops. The products will then go where this new financial house directs. That is what has happened in the Central American coffee trade. This coffee, since the war financed by American capital, no longer reaches the European markets but goes largely to the United States.

13. *Proposed solutions.*—As industrial nations become more dependent upon sources of raw material supply the problem of the free flow of these materials will become even more disturbing.

The possibility of securing for the manufacturers of the United States an adequate domestic supply of raw materials through their cultivation at home is limited by climatic conditions. The opening up of new sources of rubber in the Amazon Valley and in Liberia will solve the problem only in part, for transportation from these far places to the United States will still be at the mercy of foreign naval attacks. Neither the Amazon region nor Liberia are United States territory and political control over these sources of supply when they are once developed will be entirely lacking.

Such measures are good as far as they go. They are no permanent and internationally satisfactory solution of the problem.

It has been suggested that all essential raw materials be placed under international control. The materials are then to be distributed on the basis of the needs of each state irrespective of the location of the source.

This would result in the setting up of an international super-government limiting the sovereignty of the various states and for that reason will not be tolerated as long as the present concept of state sovereignty continues to form the basis of our political philosophy.

The League of Nations through various committees has been at work to bring about what seems at present the only workable solution to the problem. The aim of this organization is to obtain from the

governments of the world support for an international agreement by which the governments will mutually promise not to place any obstacles whatsoever in the way of the free flow of such essential raw materials.

It must be clear that such an agreement cannot do away with the advantage derived from either financial or commercial control, but it will at least guarantee free access to these raw materials by all who are in need of them and without discrimination or special privileges based upon national lines.

REVIEW

Account for the fact that in recent years the question of foreign control over raw materials has attracted so much attention.

Define the three different kinds of control that may be exercised over raw materials.

State the economic justification of a restriction on production of certain typical products.

Explain why the Stevenson rubber control scheme proved a failure.

Give the reasons why Great Britain will for years continue to be the center of the raw material trade of the world.

CHAPTER XI

THE TRADE IN RAW MATERIALS (*Continued*)

1. *Fundamental characteristics of the trade in staples.*—The trade in manufactured products gives rise to the keenest competition. The products can be easily marked so that the producer may at all times be known. Good will plays, therefore, an important rôle. Advertising and building a demand for the products of one firm to the exclusion of another is a logical development. The trade in manufactured products consequently becomes a struggle for supremacy between individual concerns. Small groups within each nation compete with one another, and frequently combine to present a united front against foreign competitors.

The trade in staples presents a different picture. With very few exceptions, the producer does not take an active part in the selling of his product. The buyer is active, the seller usually passive. Nor is this unreasonable, for the demand for such products is usually an indirect demand, determined by the demand for the finished goods, and the raw products cannot be marked. Once the goods have left the region where they are produced, they can no longer be identified. This difference between manufactured

products and staples is fundamental, and affects the organization of the trade in these products.

2. *Attempts at identification.*—Attempts have been made to make the identification of staples possible. The "Sunkist Oranges" identification attempts to establish a good will for products which are not in the manufactured class. The trade name becomes a guarantee of uniformity and a valuable trade asset.

Many staples are in this way assuming the character of manufactured and trade-marked goods. The more perfectly they assume this character, the more nearly will the selling organization that must be maintained be like that demanded for the trade in manufactured products. An interesting development along this line is seen in the increase in coöperative effort among producers. The California Fruit Growers' Exchange is one of the most successful cooperative undertakings in the United States. Similar organizations are found in other sections of the country, and a growing list of products is being marketed coöperatively under coöperative trademarks.

In Europe, the coöperative movement has been developed more generally than in America. The fact that products of the farms form an important element in foreign trade among the Western European countries, has contributed, no doubt, to this development. In the butter trade, the Confederation of Dutch Coöperative Creameries and the Coöperative Butter Export Association, in Holland, were estab-

lished to aid the individual farmers in their competition in the English and German markets, by maintaining a uniform grade, and by establishing good will for the coöperative trade-mark. The Central Association of Bacon Curers and the Dansk Andels Aegexport are similar coöperative undertakings in Denmark.

The products that form the bulk of the international trade in staples are not ready for consumption, and are handled by various middlemen and manufacturers before they reach the consumer. Easy ways of recognizing quality, therefore, are not a selling point. The wholesale buyers or brokers trust their own judgment more than the label. They demand a competitive price and the quality that their particular trade demands.

3. *How the price of staples is determined.*—The demand for raw materials and foodstuffs is an active demand. The producer usually takes a passive attitude in the selling of these products. Usually, local buyers collect the product, grade it and clean it roughly, and sell it to traders, who send it overseas to the foreign markets. Here it may undergo a further process before being offered for sale, or it may be more carefully graded, but usually it is placed on sale as received, along with identical or similar products received from other parts of the world. The price paid at the central market will determine what the local buyers will feel justified in paying the producers. In other words, there is a ruling price,

a "world price." This price is not determined by individual bargaining between representatives of producers and individual business men, shrewdly contriving to secure a larger discount than some competitors, or to obtain a monopoly hold on the sale of the product. The world price is set in the open market through the bidding up and bidding down of those who have the product for sale, and those who desire to buy the product. The price is, therefore, a reflection of the degree of the world's need for the product.

4. *Auctions.*—This process of world price determination takes place in large market centers. Here the goods are usually sold at auction. Auctions were first developed in the Netherlands during the seventeenth century by the Dutch East Indian Company. They were public sales, announced beforehand, of the colonial goods brought to Amsterdam by the many vessels operated by this company. Merchants from every country of Europe came to these auctions to supply their needs for the products of the Dutch Colonies and of the West Indies.

At present auctions are still held on a large scale in London, Liverpool, Amsterdam, Rotterdam, and Antwerp. In London, wool, hides, furs, tallow, tea, coffee, spices, lumber, indigo, fruit, feathers and ivory are sold at auction. Amsterdam offers in its auctions coffee, cocoa, tea, tin, copal, indigo, tobacco, and other colonial products. In Antwerp, the prod-

ucts of the Congo, and, in Bremen, wool are sold in this manner.

Auctions may be held in the country where the goods are produced. Almost all the Australian wool is sold at auction in Australia, and, to a lesser degree, the Russian and Argentinian wool is disposed of in the same way. The coffee, tin and indigo auctions in the Dutch East Indies and in Calcutta are other examples.

5. *Organization of auctions.*—The auction is publicly announced in the newspapers and trade journals. The prospective buyers are usually allowed to inspect the goods before the auction takes place. In case the goods themselves cannot be produced conveniently, samples are displayed.

The total quantity offered for sale is divided into "lots" of the customary "trading unit" and assorted according to the different grades, as far as this is possible. Sometimes, for the convenience of small buyers, "assorted lots" are made up, containing a given proportion of the various grades.

Although samples are sometimes displayed, the sellers assume no responsibility for either the quality of the goods or for any correspondence between the samples and the lots they represent. The goods are always sold "seen or not seen with all faults." Neither does the seller assume responsibility for "errors of description." The buyer must, therefore, inspect the lots closely, or his broker must do so for

him. Hence, the broker's position is one of responsibility.

Bidding is left to brokers. In many trades, as at the wool auctions, the employment of brokers is obligatory. In other cases it is desirable, because of the highly specialized nature of the business. Usually a deposit is required after the sale has been made, ranging from 20 to 25 per cent of the amount of the sale. The actual delivery must take place within a stated period, generally within about two weeks, at which time the balance of the purchase price falls due. The goods are usually stored in warehouses, and delivery takes place by indorsement of the "warrant." The goods are at the buyer's risk from the moment that the sale has been made.

6. *The exchanges.*—At the auction, inspection of the goods, or of representative samples is allowed. The sale cannot, therefore, as a rule take place until the goods have actually arrived. As a matter of fact, auctions found their origin in the sudden dumping of large quantities of colonial products in a port which could not absorb them. This would have resulted in a sudden depression of the price, to the loss of both importer and local retailer, had not the auction brought together a large group of outside buyers and opened the way to the establishing of a fair market price.

Inspection of the goods is necessary as long as the products are not standardized in quality. Once products become standardized, they may not be

bought and sold by description, but the products or representative samples are examined. Transactions carried on under these conditions make for great economy in organization. Goods sold on description may change hands before they reach the market place, and may be redirected to arrive at their final destination by a more direct route, thereby saving in transportation charges and in loading and unloading expenses. Since the goods need no longer be present, the market may take place continuously, providing a daily barometer of the world's price for the products traded in. The prices for such products in various local markets tend to differ less and less from the prices in the big trading centers, because the cost of delivering the products at ports of smaller importance is not necessarily greater than that of delivering them at the trading center. The price becomes more nearly a real world price, the more so because standardization makes it possible to know positively the quality that was sold at a certain price.

A high degree of market organization is necessary to make possible the selling of articles that must be graded for the market according to color, size, country of origin, or chemical analysis. Unless the grading is placed in the hands of trustworthy officials, and unless a general agreement exists in regard to the standards to be used, the system will fall to pieces. The exchange supplies this necessary organization, and coöperates with the governmental bureaus established for that purpose.

7. *The organization of exchanges.*—Exchanges may be private enterprises or public institutions operated under supervision of the central or local government. In the United States, the "produce exchanges" are usually incorporated. The grain exchanges of Minneapolis, Duluth, Kansas City, Omaha, Buffalo, Philadelphia, Milwaukee, and Toledo, and the Coffee Exchange of New York are all incorporated, differing in that respect from the "stock exchanges" which are usually unincorporated.

The object of these exchanges, as stated in their constitutions and by-laws, is to afford a meeting place for buyers and sellers, to promote uniformity in usages, to facilitate the adjustment of disputes, and to promote high standards of ethics in the trade. The exchanges regulate the conditions of membership, the methods of trading, and usually supervise the storage and grading of a product, as well as the brokerage charges, and the conditions of the sales contracts. In connection with these exchanges, arbitration committees are maintained.

8. *The warehouses.*—In the marketing of raw materials, the warehouse plays a much more important rôle than in the marketing of manufactured goods. The reasons for this are evident. Manufactured goods almost always are sold before they are shipped, they are usually disposed of as rapidly as possible, and they do not, as a rule, move in shipload lots. Raw materials, however, are concentrated in a few centers, shipped from distant producing countries in

enormous quantities, and, as a rule produced seasonally, are in need of efficient storage facilities.

Another reason why raw materials make more general use of public warehouses is found in the fact that raw materials, when so stored, form a better basis for bank loans than do manufactured goods. Manufactured goods cannot be readily marketed except through the customary trade channels, and require an active selling organization. It is, therefore, unsafe for banks to lend on manufactured goods in a warehouse, unless amply safeguarded by guarantees and by wide margins between the sales value of the goods and the amount of the loan.

The raw materials for which a wide and continuous market exists, are ideal warehouse commodities. They are subject to published prices, and are easily disposed of should the borrower fail to pay his loan.

9. *The warehouse receipt.*—The warehouse, upon receiving into its care a shipment of goods, issues a receipt which may then be used as a negotiable instrument in a sale of goods, or may be deposited as collateral with a bank.

The structures known as "public" warehouses in the United States are privately-owned warehouses intended for public use. Upon the owners of the warehouse devolves the responsibility to control the issuing of the warehouse receipts. Some abuses have at times been practiced in connection with these receipts. It was found that some warehouses issued receipts for goods not in the warehouse, or for a dif-

ferent quality from that held. The result has been that many states have passed acts requiring these warehouses to be licensed. In New York, Chicago, Kansas City and Duluth, the exchanges require, moreover, that the receipt be registered with an official of the exchange. In Chicago, the Board of Trade inaugurated in 1922 the "custodian system" which provides for the establishing of custodians in connection with private warehouses, to control the goods entering and taken from them.

10. *The two-ticket system.*—The majority of European warehouses issue a double ticket, one-half of which is to be used as the collateral with the bank, the other half as the negotiable instrument by which the ownership in the goods can be transferred. The amount of the loan obtained from the bank is then indorsed upon the sales slip, so that the buyer may know what outstanding obligations must be satisfied before he can obtain the other half of the ticket, without which the warehouse will not make delivery. It is claimed that this system is more efficient than the system now in use in the United States.

11. *The marketing of wool.*—It is obviously impossible to describe in minute detail the actual marketing of all classes of raw material. Each trade has its own customs and special contracts. In the London wheat market, alone, fifty-one different contracts are recognized by the Corn Brokers' Association, and eight different methods are used to determine the

quality of the wheat, according to the country of production.

There is, however, sufficient similarity in the trades in different products to make a more detailed study of one useful as an example. An important raw material, produced in many sections of the world, and used generally in the countries of the temperate zones, is wool. This raw material is of particular interest to American readers because it is produced in the United States and Canada, but the domestic consumption is so large that an equal amount must be imported from abroad. A study of the marketing of this commodity will, therefore, cover domestic and foreign methods.

12. *The domestic wool.*—The American wool is marketed under three different names, depending upon the section of the country where it is produced. Domestic wool in the United States is produced in the Eastern and Middlewestern states, "Territory" wool is produced in the Rocky Mountain states, while the wool raised in Texas and California is usually classified separately.

Although some of the wool is marketed through the farmer's coöperative sales agencies, most of the home-grown wool is sold by the growers to traveling buyers. These buyers may represent merchants, who grade and sort the wool and then sell it to the mills, paying cash to the farmers. The buyers may likewise represent mills. This does not occur generally,

since the mills must have a definite and uniform quality, and prefer to buy from middlemen who have eliminated from their lots all wool unsuited to their purposes, and disposed of it elsewhere.

Some wool is disposed of through local dealers who have financed the farmer during the winter months. A large quantity is sent on consignment to merchants or commission men located in the central markets. These middlemen organizations are called "wool houses." The wool houses dispose of most of the wool on the wool auctions. The principal American wool markets are Boston, Philadelphia, Chicago, New York and St. Louis.

13. *Imported wool.*—About 70 per cent of all the imported wool comes into the United States through the port of Boston, which is the country's most important market for foreign wools. The imported wool is largely Australian in origin. Its quality compares very favorably with the domestic product, and it usually brings a better price on account of the better care which is given the wool by the growers. In the United States, the whole fleece is left in one piece, but in Australia the inferior parts that are found on the legs, neck and belly are carefully "skirted" and shipped separately.

14. *Wool markets in producing countries.*—Raw materials are generally financed by the buyers, and because these buyers, as a rule, represent manufacturers or dealers in the consuming countries, it follows that the most important markets are generally

located in the consuming countries. The producers, meanwhile, anxious to eliminate as many middlemen as possible, and to profit themselves by the market prices current for the products, often attempt to establish open markets nearer the place of production.

This general rule holds good for wool, as it does for most raw materials. The oldest and most important markets are still those in the consuming countries—England, Germany and the United States. But there may be noted a tendency to develop open markets in the producing countries. The more successful this effort is, the more the producers will be able to sell the wool themselves in the open market near home and the less they will be dependent upon the foreign buyers, who alone are able to finance the shipment during the long period of transportation to the consuming markets.

South Africa, the Argentine, Australia and New Zealand are developing wool auctions that are growing yearly in importance. The result is that, more and more, representatives of foreign firms, instead of purchasing wool at private sales through traveling buyers, are now buying in the open auctions, where prices express more nearly the world prices for the product.

This tendency also has the effect of diminishing the relative importance of England as a market. Formerly the bulk of the Australian wool went to England to be auctioned off. Now, to an increasing

extent, it goes direct from the Australian market to other markets.

15. *Wool markets in consuming countries.*—The dominant position of England as a market for raw materials is reflected in the trading rules in the auctions in other parts of the world. Almost invariably they are built upon the model of the London or Liverpool auctions.

The largest of the world's markets for wool is London. Here the first public auctions took place in 1827, and have been held regularly since 1835. Every year sixteen auctions take place. Six of these are the so-called Colonial Wool Sales where the wool from Australia and the Cape is sold. The other ten are the Foreign Wool Sales. These are divided into six Fine Wool Sales and four Low Wool Sales.

Each auction takes place at a time, and under conditions, determined by the Associated London Selling Wool Brokers, and lasts for about three weeks. Bidding in these auctions can take place only through "buying brokers," members of the Brokers' Association. The wool sold at these auctions is frequently the property of English over-sea banks, which have financed the wool crop in distant lands. The remainder is consignment wool shipped into the market by over-sea producers, or, more frequently, by large export firms.

The selling brokers divide the wool into lots, each of homogeneous quality. They determine the tare,

and issue a catalog in which the various lots are listed under their respective numbers, with a brief statement of the origin, quality and marks, and an indication of the place where the lots may be inspected. After the auction, the catalog is again published, this time with the prices inserted for which the various lots were sold. The Liverpool auctions are carried on under substantially the same rules.

Though each product of world trade is bought and sold under its own peculiar rules, the marketing of wool here described may be taken as illustrating the general principles to which most trades conform.

REVIEW

Compare the selling of manufactured goods in foreign markets with the selling of staples.

Describe the rise, development and organization of auctions.

Describe the conditions that must be fulfilled to make a product suitable for trading on an exchange.

Explain the operation of the "two-ticket" system of European warehouses.

Describe the marketing of wool in Liverpool and London.

CHAPTER XII

THE CONDITIONS OF SALE

1. *Trade usages.*—The most difficult problems in foreign trade are those connected with the local customs and usages of the different markets. A careful study of these is the basic condition of success, though the American exporter is reputed to be much inclined to ignore them. Their effects are doubtless most apparent in the vast world trade in staples, but custom also rules the trade in manufactured goods in ways that here can be only suggested.

2. *Quantity of goods.*—In foreign as in domestic trade, goods are quoted in quantities determined by the trade. Goods of large value, such as locomotives, automobiles and pianos, are sold by the unit. Smaller goods, like shelf hardware, are quoted by the dozen or the gross. Larger hardware is frequently quoted by fractions of the dozen, such as half dozen or quarter dozen. Hats, umbrellas and walking canes are usually quoted per hundred, and some of the smaller items of hardware follow the same rule.

A certain amount of elasticity is usually allowed in the quantity required to fill a contract. In the case of raw materials, five per cent "tolerance" above and

below the quantity called for is frequently allowed for shrinkage or for moisture. In the case of manufactured products, the capacity of the railroad cars, or of the packing cases, within certain limits, is allowed to determine the exact amount shipped.

The relation between the trading unit and transportation facilities is illustrated by the cotton trade. Here, one hundred bales is the usual trading unit. Since an average freight car holds but 75 to 90 bales, it is necessary to load the remaining 10 to 25 bales in another car of mixed freight. This second car, because of its mixed contents, is subject to much delay, which is often vexatious to both shipper and buyer. A change to a trading unit of 75 bales would do away with much of the trouble, and at one time this change was considered.

3. *Foreign weights and measures.*—Goods may be quoted in quantities familiar to the exporting country, or to the buying country. As a rule, it is best to smooth the way for the buyer by quoting him in his own way. The metric system is widely known and used, but even in those countries where the metric system is legal, it will often be necessary to use other measurements.

The multiplicity of weights and measures is confusing. Frequently the same name is given in different countries to units of different value. The libra of Argentina is equal to 1.0142 American avoirdupois pounds, of Mexico to 1.0146 pounds, and of Venezuela to 1.0161 pounds. In most Latin-Ameri-

can countries, 25 libras make one arroba, while in Brazil it takes 32.

The differences between English and American weights and measures of the same name should also be remembered. The United States and the British West Indies use the old Queen Anne gallon but the rest of the English-speaking world uses the imperial gallon. In commercial practice, six American gallons are accepted as equivalent to five imperial gallons, although this relation is not quite accurate. In the same way, 33 American bushels are understood to be equivalent to 32 imperial bushels. When quoting, or when interpreting quotations, it is, therefore, essential to have it clearly understood whether American or English measurements are to be used. Care in the use of abbreviations must also be urged. "Cwt.," sometimes carelessly read as "100 pounds" in this country, is read in England as "hundredweight" or the equivalent of 112 pounds.

4. *The quality of the goods.*—It is essential that some definite understanding exist between buyer and seller in regard to the quality of the goods that are to change hands. Some goods can be bought on description, possibly from a picture in a catalog, but other goods must be inspected. In the case of textiles, ceramics, leather goods and many raw products, samples are necessary.

Sometimes the buyer will prepare a sample and request the export commission house to secure goods as nearly identical as the market affords. The pros-

pective sellers submit their "contra-samples," and, in case of a sales agreement, are legally bound to produce goods true to sample.

In some lines the seller agrees to furnish the buyer with sales samples to enable the latter to sell the purchased goods in his local market while the order is being filled. A definite policy should be followed in respect to these samples. Up to a reasonable amount, they may be furnished free, but beyond that point a fixed price should be charged. Some firms make a charge for all samples, and add this to the final invoice. Others allow a liberal discount on all sales samples. Free samples, when distributed on a too liberal scale, may prove a costly and unproductive outlay, the sample "collector" not being confined to the domestic trade.

In case a large degree of standardization is possible, selling by sample is unnecessary. Cotton, coffee and wheat are sold by description and number. Each shipment is graded according to standard samples kept in the principal trading centers, and readjusted each season. "Santos good average" means the same type of coffee in Antwerp, Liverpool or New York; "Red winter No. 3" is recognized the world over as a wheat of a certain size, firmness and color. A definite price relation is then established between the different grades, so that once the price of one grade is agreed upon, the price of all other goods is readily determined. Where no accurate determination of quality is necessary, goods are some-

times sold "f.a.q." (fair average quality) or *tel quel* (as they stand).

Interesting legal questions arise in determining at which point in their journey from factory to foreign buyer the goods pass into the possession of the purchaser. At that point of delivery the risk of change in quality also passes to the buyer. Many products are sold under certificates issued by official or public chemical or technical establishments, and in the sales agreement the clause "certificate to be final" is inserted. Such goods are inspected before shipment takes place. In the case of agricultural products, the "arbitration clause" is frequently used, providing for the inspection of the goods upon arrival, by a body of experts who determine the quality and sometimes the quantity delivered. In England this is called a "survey."

5. *The price quotation.*—When the price of the goods is quoted, it is important to leave no doubt as to what is included in the price. To say merely, "We offer you our latest model at $50," means nothing. Other questions arise: Where are the goods to be delivered? How are they to be packed? Who is to pay for packing, freight and insurance? What are the conditions of payment? In offering goods for sale, these questions should be clearly and unmistakably answered in the quotation itself. If there is any room for doubt, the sale may go to a competitor even at a higher price.

Care should be exercised not to quote different

prices to competing firms in the same locality, unless some excellent reason exists which justifies it, and not to quote retailers the price quoted to wholesalers. Carelessness in these respects will ultimately destroy any good will the exporter may have created.

6. *How price is determined.*—The price quoted may either cover the entire shipment, or else be a "unit" price. When goods of various qualities are sold under one quotation, a price may be fixed for each quality, or an "average price" may be set. In the latter case, the relative amount of each quality is fixed within definite limits. An excess of any one grade is then taken care of according to established rules of premium or rebate. Goods sold under a chemical analysis, such as sugar, gasoline or magnesite, are quoted on the basis of average contents, with increases or reductions for each percentage above or below average.

In some cases, the price is not agreed upon at all. Metals are frequently bought in Europe at an average price that is based upon the quotations of the London metal exchange for the month. In this country, zinc ore is bought on the basis of the quotations for metal in the St. Louis market. In Italy, raw silk is also bought at an average price. In some trades, a "fluctuation clause" is included in the price agreement, to guard against losses due to violent fluctuations of market prices. In the London egg trade, the price for the first half of the week is governed by the quotations of the Monday market. Sales

made during the latter part of the week are frequently made "subject to the alteration of next Monday's market."

7. *Gross weight* vs. *net weight.*—When goods are sold by weight, it is essential to indicate whether the price refers to net or to gross weight. Usually net weight is made the basis, but where the tare cannot be readily separated from the goods, they may be sold "gross for net." In many lines the inner package, paper winding, or cardboard box, is included in the net weight. To differentiate between this net weight and the actual weight of the goods, the term "net weight" is sometimes used.

When it is virtually impossible to separate the goods from their container, an arbitrary tare is figured. This usually corresponds closely to the normal actual tare, but in some trades it is purposely set higher than normal. In the Hamburg coffee trade, a two per cent deduction is made for tare unless the actual tare is above one and one-half per cent, when, for every one-quarter additional, the same amount is added to the trade tare. In the Liverpool cotton market, a flat six per cent deduction is made for tare.

8. *Who pays for the packing?*—In foreign trade the high cost of packing goods for transport forms a noticeable part of the cost of the goods. In order to protect metals against the effects of over-sea voyages, heavy boxes lined with tin, hermetically sealed, are frequently indispensable. It is by no means al-

ways necessary for the seller to bear the entire burden. In the sales contract a clause may be inserted by which the expense of packing falls largely upon the buyer. Such goods are then quoted "package excluded," as against "package included" for those cases where the costs are borne by the sellers. Not infrequently, the cost of packing is calculated in percentages of the amount of the invoice.

American packing cases are in great demand abroad, and quite a business is carried on in some markets by those who buy up old cases, remove the marks, repair the cases if necessary, and then sell them to local shippers. The author once bought a box in Amsterdam, to be used for a shipment of books to the United States, and, upon examination, discovered no less than three shipping marks. The marks indicated that the box had already completed a journey from America to Japan, from Japan to Germany, and from Germany to Holland. The customer who pays for his packing often considers the packing case or crate worth more than he paid for it.

9. *What is included in the price?*—The price may be quoted for the goods as they lie in the warehouse, all charges for transportation, insurance and other incidentals being additional. This is called an "ex-warehouse" quotation, or sometimes loosely an "f.o.b." offer. As a matter of fact, "f.o.b.," strictly speaking, should be understood to mean "free on board" the vessel. In order to guard against misunderstanding, it is well to qualify the "f.o.b." clause

and to speak of "f.o.b. railroad car, our factory," or "f.o.b. steamship, New York." This qualification may also prove helpful in case of litigation, since "f.o.b. steamship, New York" beyond any question places the risk of ocean transportation upon the shoulders of the purchasers. Sometimes the term "free alongside" is used to indicate sharply the place where responsibility for outlays passes to the buyer. The buyer agrees, on the basis of this quotation, to deliver the goods on a lighter, or on the wharf, within reach of the ship's tackle. The purchaser must then shoulder the expense and risk of hoisting the goods on board. Such quotations are used only in selling heavy machinery or bulky goods.

If the price is quoted so as to include the freight to the port of destination, the term "cost & freight" or "c & f" is applicable. More usual is an offer "c.i.f.," which means cost, insurance and freight included. Sometimes the French abbreviation is used, "c.a.f.," and infrequently the German "k.f.a." Under these terms, the price includes all expenses up to the point where the goods are taken from the vessel at the port of destination. The expenses of unloading, if any, must be borne by the buyer.

A "c.i.f." contract is most usual and most satisfactory all around. The seller is in a position to ascertain both freight and insurance charges, while the buyer can easily find out what unloading and further transportation will cost him. The goods travel, however, upon the ocean at the risk of the buyer, and

not, as is commonly supposed, at the risk of the exporter. When the cost of unloading is included, the term "free at quay," or "free overside" is used, but this method of quoting is not very common.

In Continental trade, firms go further and quote prices "free go-down," or "free in store." In this price is included every possible expense, not excepting import duties. Thorough familiarity with foreign tariffs, and local freight and drayage rates makes such quotations possible, and the firm in a position to quote such prices is at a considerable advantage when competing with firms unable to quote any but "f.o.b." prices. Sometimes prices are quoted "in bond," indicating that the goods are delivered in a designated warehouse, but that the seller does not undertake to pay the duty.

In order to remove another uncertainty from the sales transaction, the seller is frequently willing to shoulder any fluctuations in exchange that may occur during the period between the closing of the sale and the date of payment. This is indicated by the form "c.i.f. & e." or "f.o.b. & e." Chinese importers prefer to carry the exchange risks themselves, hoping to make an additional profit by this speculation.

In indent transactions, "c.i.f. & c." prices are not infrequent. This means that the commission charged by the middleman is also included in the price. "C.i.f. i.c." goes even further and includes also the interest charges which frequently accumulate to considerable

amounts in indents. The indent will be discussed later in this chapter.

10. *Conditions of delivery.*—In closing a sale, the conditions of delivery often receive too little attention. Difficulties may arise through no other cause than neglect to state clearly when and where delivery of the goods is to take place.

Sometimes delivery may be spread over a rather indefinite period, "prior to June 15th of this year," or "before the end of this year." In other cases, however, a very definite period, or time, or method of transportation is indicated. "Prompt" is a term used in the English metal trade to indicate immediate or "spot" delivery. "By next steamer," "by steamer ———," "to be delivered buyer's choice," "to be shipped during month of ———" are terms frequently found and that explain themselves.

A common method of selling staples is "to arrive." The goods are on the ocean but their destination is undetermined. After the sale is completed, the seller orders the ship to deliver the goods at a certain port. In this manner, wheat on its way from Argentina may be sold in Liverpool by means of an "arrival contract," and ordered to Rotterdam for transhipment to Southern Germany.

It is customary to require that, upon concluding a sale "on arrival," the seller shall notify the buyer, within one or two days, of the name of the ship by which the goods are being carried, and of the approximate date of arrival. This provision is needed to

prevent the seller from substituting cargoes, if at a later date it turned out to be to his advantage to do so.

11. *The conditions of payment.*—Although the methods of financing foreign shipments cannot be discussed in complete detail here, a few words regarding the condition of payment included in the sales agreement are, however, appropriate. Apart from the method by which the payment is to take place, it is important to have a definite understanding in regard to the date when the payment is due.

In cases where "documents against payment" or "spot cash" is agreed upon, the payment is due when the goods, or evidences of their ownership, change hands. But this is by no means always the case. Frequently, the provision is inserted: "Documents against payment, but not before arrival of goods." Where, in such cases, a certain period of credit is allowed, say sixty days, this period does not begin with the date of presentation of the documents, but with the date of arrival of the goods. The object is obvious. The buyer does not care to pay for the goods, nor to accept the draft, until the goods have arrived, and he can proceed immediately to sell them. The same purpose is sometimes served by "dating" the invoice and the draft. This means dating them a month or two ahead. Common among British exporters is the method of asking one-third with order, one-third upon receipt of goods or documents, and one-third three months after date of invoice.

Very infrequently, "payment when possible" is found. This does not necessarily mean that payment may be indefinitely postponed. The agreement borders on a consignment, with this difference, that the exporter has a definite claim upon the foreign firm, even though it should never succeed in selling the goods in question.

12. *The legal basis of the sales contract.*—Considering the uncertainties of international commercial law, it is well to include in sales agreements with over-sea customers, a clause by which the law under which possible disputes will be judged, is indicated. International commercial disputes may be judged under the law of the country where the contract is made, or of that in which the contract is filled. The latter is more and more becoming the rule. Most of the intricate legal relations between business men of different nations are but insufficiently covered by legal treaties. Special agreements inserted in contracts, in so far as they are not contrary to existing commercial law, rules of commercial courts, or commercial usage, regulate the details of international commercial intercourse.

13. *Commerce courts.*—It is evident that disputes will often arise over the question whether a contract has been properly filled. In order to settle such disputes, wide use is made in foreign trade of commerce courts. These courts in many foreign countries are maintained by chambers of commerce, and their legal powers are clearly defined by law. Special courts

sitting on cases in any one trade are maintained by many exchanges. The advantages of the commerce courts are many. The procedure of the court is simple, the list of cases is small and action prompt, the judges are business men, acquainted with trade usages, and costs are negligible.

Business men submit their case to a commerce court at an early time in the dispute, and it is easier to arrive at a friendly understanding than when the difficulty is of long standing. In the French commerce courts, lawyers are not admitted, much less allowed to plead. In German commerce courts, no oaths can be taken, and no records are kept of the cases. These restrictions make the procedure of the courts simple, informal and swift. Similar courts are found in France, England, Germany, Austria-Hungary, Italy, Norway, Belgium, Russia and Holland.

In the United States, no commerce courts exist, but a large number of boards of arbitration perform similar functions. The best examples are found in the Cincinnati Chamber of Commerce, the Cleveland Chamber of Commerce and, above all, the Chamber of Commerce of New York. Charles L. Bernheimer, chairman of the latter body's committee on arbitration, said, in a recent address:

> In all its endeavors it strives to establish commercial equity, a high regard for commercial honor and ethics, and to prevent the disruption of business friendships. I am happy to say that we have never experienced

difficulty with the parties to a dispute over the formal award made by our arbitrators, and we have yet to hear of an instance when, in the case of mediation and conciliation, our advice has not commanded confidence and respect.

Let me make it clear that our arbitration system rests upon the existing statutory law of the State, under which parties may agree to submit an existing controversy to arbitration and upon the basis of the award may secure the judgment of a court of record.

In most countries, appeal from the decisions of the commerce courts to civil courts is possible. The necessity for such action does not often arise, and only then when the commerce court falls short of its aim, which is to act "en qualité d'amiable compositeur" (in the capacity of a friendly conciliator.)

A significant step in the direction of establishing international arbitration has recently been made. The Chamber of Commerce of the United States has made arrangements with the Bolsa de Comercio of Buenos Aires, Argentina, to establish a joint committee of arbitration. Disputes arising between American and Argentine firms may be referred to this committee.

14. *Accurate information necessary.*—Before closing a sales agreement it is necessary to know the customer. In foreign trade, the exporter, unless he is represented by his own employees, depends upon information secured through third persons.

Every foreign trade transaction, except those in which "cash New York" is demanded before shipment

is made, is a credit transaction. "Documents against cash" is a credit transaction, for the goods travel far from home, spend days, even weeks, in transit, and the "cash" will take time to travel back. Even a "T.T." (telegraphic transfer) is a credit transaction in this sense. The exporter is, moreover, always at a disadvantage, once the goods are on a foreign shore.

Reliable credit information is, therefore, a very necessary thing. It is the more necessary because credit insurance in foreign trade is not yet generally possible.

15. *Credit information.*—Next in importance to credit insurance is credit information. R. G. Dun & Company and the Bradstreet Company both maintain a large number of agencies in foreign countries, and also exchange information with the large foreign credit firms. The best known foreign bureaus are: in Paris, Societè generale de Renseignements Commerciaux; in London, W. R. Perry, and Stubbs Ltd., and, in Germany, Schimmelpfenz.

16. *Information through "references."*—The commercial credit information service regarding foreign firms is not so detailed and definite as the domestic credit ratings. To supplement or to save expense, information may be sought through other channels.

References to one firm by another can never be satisfactory. Credit inquiries hardly ever receive the attention of responsible men in the firm. A creditor firm may have a direct interest in withholding information, or in misrepresenting the case. Moreover,

only those firms are mentioned as references that are certain to give favorable information. The consular regulations do not permit consuls to give information of a private or confidential nature, or to render an opinion regarding the capital or the credit of houses in their territory.

A foreign information service is maintained by the National Association of Credit Men. Many of the various trade-promoting agencies discussed in a previous chapter maintain credit-information departments. The Philadelphia Commercial Museum is well prepared to perform such services. In Canada, the Canadian Manufacturers' Association has maintained a credit-information service since 1904.

17. *Credit information through banks.*—Banks are probably in a better position to secure information regarding credits than any other agency, but they will not part with it to the first comer, particularly if it concerns their own customers.

American business men have been handicapped by the lack of American branch banks abroad. The German and English banks accumulate trade and credit information for their own customers and countries. The documents attached to drafts tell these banks much about the business dealings of firms of other nationalities. Certain American firms have quite definite evidence that their transactions through German banks became known to German competitors. Some of these banks went so far as to send copies of invoices to German manufacturers. The

establishing of branch banks abroad is, therefore, not a matter of sentiment; it is a vital trade necessity.

In a few isolated cases, the seller protects himself by a "letter of trust" or a "letter of lien." This letter is a statement, signed by the buyer, that the goods are held by him in trust for the seller. Usually, in such cases, the "letter of trust" covers the period between the receipt of the documents by the buyer and the receipt of the funds by the seller.

18. *Requests for quotations.*—Export commission houses and export merchants send out requests for quotations to manufacturers, usually as printed forms. Frequently, manufacturers are requested to fill these out in duplicate, and to sign both copies. In case the quotation becomes the basis of an order, one of the copies is sent back, signed by the export house. This is called the "confirmation."

The tendency is always for the export house to throw as much of the risk as possible upon the manufacturer. Where a sample is sent with the inquiry and a "contra" or reference sample is demanded, the export house will usually take pains to call attention to the fact that acceptance of this reference sample does not signify acceptance of the goods, even though they may turn out according to sample. This is intended to make the manufacturer carry the commercial risk of the transaction. The goods are not "accepted" until they reach the foreign customer and are accepted by him.

The manufacturer, on the other hand, may insist

that the goods be inspected before they leave the factory, or at least in the port of embarkation. In Manchester, the cotton goods manufacturers deliver their goods, sold to export commission houses, to a "packer," who inspects them and packs them for export. This "packer" becomes then, legally, an agent of the export commission house.

Where instructions regarding packing are given, it is advisable to comply strictly with them. The manufacturer may be held responsible for any damage to the goods resulting from faulty packing, and goods may even be refused altogether by the oversea buyer when not packed or "made up" according to instructions.

19. *The indent.*—In the United States, the term "indent" is used among most exporters as synonymous with export order. Indent has, however, a special meaning and, strictly speaking, refers to the kind of export order current in Asia and Australia.

The Asiatic indent is an order to import certain goods, usually at a stated price, given by a local dealer to an importer or an exporter commission house. Such an order is binding only upon the buyer. The middleman does not bind himself until he has definitely accepted the order. He does not need to commit himself until he has made certain that he can obtain the goods at a price allowing him to make a profit. The length of time during which the middleman may hold the order subject to approval varies according to local and trade usage, but

is usually six weeks. The price at which he is asked to import is a c.i.f. price; the price at which he buys is usually an f.o.b. price.

Legally, such an indent is a "contract subject to approval." The form of the indent differs in the various markets, but usually it opens with the words: "I instruct you to purchase for me the whole or part of the undermentioned goods." The middleman may accept the entire indent, or he may refuse a part of it. The goods travel at the risk of the buyer, but the middleman agrees usually to insure them at ten per cent above invoice value, this excess to be paid to the buyer in case of total loss to reimburse him for the "trade loss." The middleman reserves, in most cases, the right to dispose of the goods immediately, by auction or otherwise, in case the buyer is not prompt in meeting his financial obligations.

These indents were originated for the benefit of dealers of small capital, in localities where wholesalers did not care to keep large stocks of goods for immediate delivery, on account of the uncertain and limited demand.

EXAMPLE OF AN INDENT

Calcutta, Mar. 19, 19—

Indent No. 3584
Morgan & Jones
Calcutta
Gentlemen:

We hereby request you to purchase on our account and risk the whole or any portion of the following goods at the price specified. This indent to remain in force for 3 weeks after its receipt.

1. Delivery and shipment:
The prices are understood c.i.f. & e.

The goods are to be shipped during the month of April by cargo steamer to Calcutta from New York.

Remarks made on samples upon which this indent is based shall be taken as part of this indent.

Each shipment under this indent to form a separate contract.

Insurance to be from warehouse for the amount of the invoice plus 10 per cent, claims if any to be made payable in Calcutta.

No objection to be made for delays caused by strikes, riots or accidents and for late delivery or non-delivery of goods owing to manufacturers default or of Force Major. Any dispute shall be referred to two European merchants (one to be selected by each side) approved by the Committee of the Calcutta Chamber of Commerce, and the decision of the arbitration shall be final and binding. The losing party to pay the survey fee.

In the case of glassware you are not responsible for breakage.

2. Payment: You may draw on us at 90 days sight, or cause your American agents to draw on us with documents attached. We agree to accept the draft upon presentation in exchange for the documents and to honor the draft upon maturity.

In default of our accepting or paying the draft as above agreed we authorize you to resell the goods at your option at public auction or by private sale on your account and at our risk. We furthermore agree to pay you for any loss including all interest and charges and a five per cent commission on the amount of the resale and waive all right to a possible profit.

(Follows detailed description of goods with reference to catalogs, price lists, quality, packing, and in this case to proper marking with "Made in U. S. A." to satisfy the regulations of the "Indian Merchandise Marks Act.")

Sehan Boos.
(Signature of local dealer.)

MIDDLEMAN'S REPORT TO FIRM ISSUING INDENT

Calcutta, Mar. 31, 19—

Mr. Sehan Boos
Calcutta
Dear Sir:

We reply as follows to your indent No. 3584 of Mar. 31, 19—

Order No.	Description of goods	Report
931	Toothpicks	Accepted
932	Shoes	Accepted
933	Gloves	Refused 15% advance

(Signed) Morgan & Jones.

Above is shown an example of an indent, and the "report" sent by the middleman to the firm from whom the indent is received. In some markets these acceptances and refusals not only fail to restate the prices or other details of the indent, but are frequently not even signed by the firm making the reply.

REVIEW

State the conditions of delivery implied in a sales agreement by sample according to the British Sale of Goods Act.

Define the meaning of the following terms: c.i.f., f.o.b. and c.i.f.i.c.

Describe the organization of a commerce court.

State some of the more important sources of foreign credit information.

Describe the form and character of an Asiatic indent.

CHAPTER XIII

THE EXPORT DEPARTMENT

1. *The export department need not be large.*—Many a firm has delayed entering upon foreign trade because of the consideration that it would be necessary to engage a large and expensive export force. On the other hand, many firms have developed a very substantial foreign business with no export department of any kind. The sales and all that is connected with the development of the foreign field are then placed in the hands of the domestic sales department.

It is not difficult to see that the best development of the foreign field can take place only where at least one person of business experience can devote all his time to this work.

2. *Foreign trade a constant study.*—No one can become, or continue to be, an efficient foreign trader unless he is willing to read and study. A business man living in the United States, meeting constantly men engaged in buying or selling the same or similar articles, reading the newspapers, discussing business conditions and tendencies at the club, finds it fairly easy to keep in touch with conditions affecting the domestic market. Yet, unless he reads the trade and technical papers and follows the market reports in

the newspapers, he will soon find himself slipping back.

To keep in touch with a market three or four thousand miles away, subject to different laws, speaking a different language, and responding to different economic and political conditions, requires constant reading and constant watchfulness. Only a wide-awake man who makes foreign trade his life work, and is willing to devote almost every waking minute to a study of its problems, can hope to compete successfully with the European exporters.

3. *The office force.*—Where the export field is large, a division of the territory is necessary. Assistant managers are generally appointed for the subdivisions. It is advisable, however, to shift these assistants periodically, if only for short periods, to prevent them from becoming "rusty," and to make each one of them an understudy to every other assistant manager, and also to the general export manager.

The same policy may be applied to the positions of lesser responsibility. The temporary loss in efficiency is more than compensated by the increased ability, morale and spirit of coöperation. When each important man in the organization has an "understudy," the work suffers comparatively little if any member of the organization should sever his connections with the firm.

4. *The correspondent.*—One of the most responsible positions in an export department is that of the correspondent. In the export houses in France, Hol-

land and Germany this position is looked upon as the stepping stone to that of manager. Some firms make use of professional translators, or depend on the offices maintained by chambers of commerce, and by such organizations as the Philadelphia Commercial Museum, and by the National Association of Manufacturers, but wherever possible it is better to employ a permanent correspondent. Letters take the place of personal visits. They should, therefore, be consistent in their tone and language. Unless the writer studies the files of old correspondence, he is likely to fall short not only in style, but also in subject matter. The ideal arrangement is to have one or more permanent correspondents, and let each correspondent have his group of customers.

For accepting orders, a form letter is not enough. Even when a special blank is used, a separate letter should be attached to it, expressing the appreciation of the firm for the order. Most foreign firms like to know that they are not a "number," but that their orders are appreciated and receive personal attention.

5. *Correspondence.*—Short, "snappy" letters are beginning to lose their effectiveness in the United States; they never were popular abroad. With most foreign business men, politeness is a first essential, and a good graceful style helps a great deal.

> Our Mr. A. notifies us that at his recent visit he found you in sorrow over the loss of your esteemed father. Accept the expression of our most sincere sympathy.

Communications like these help to cement a friendly feeling between distant houses. The interest felt and expressed lifts the business transaction out of an atmosphere of mere dollars and cents. Competition finds it hard to "cut in" here.

Technical descriptions must be avoided in letters, if only because of the possibility of making mistakes in terms. Where it is necessary to give technical descriptions, it is best to employ a professional translator, unless the correspondent has exceptional experience in that line.

Such technical translators, specializing in narrow fields, can be found in many of the larger cities. Their charges are not high. The usual charge of ordinary translation work is forty cents per hundred words for translation into English and from fifty to seventy-five cents for translations from English into a foreign language. Technical translations are usually seventy-five cents or more per hundred words.

American firms are careless in the way in which their letters and documents are signed. In foreign countries, the signature of the firm is sacred. When the head of the firm is not there to sign, the function is performed by the oldest and most trusted employee, who has been appointed and legally delegated to this office. Such an employee is proud of his position, and on his visiting card makes mention of the fact that he is "procuratie-houder" (Dutch), "chargé de procuration" (French), "procuratore"

(Italian), "procurador" (Spanish), or "prokurahalter" (German), of his firm.

The use of a rubber stamp or a signature of some minor employee, or worse, of the name of the manager signed by a clerk or stenographer, with initials appended, are practices that are regarded abroad as wholly unbusinesslike and in the nature of an affront. They will destroy the confidence of foreign firms in a house employing them.

The story goes of an English business man who received a letter from an American house, at the bottom of which he found, to his great disgust, the phrase, "dictated but not read." He returned the letter to the writer after having added the words, "Received but not read."

6. *The mail.*—In a foreign trade department, looking after the mail means more than pasting postage stamps on envelopes. The clerk in charge of it should be well informed regarding the dates of sailing of the most important oversea mails. He should bear the responsibility of supervising the dispatching of all letters, samples and documents in time for the last collection. This is an important matter, for missing the mail may mean a delay of two or even three weeks. If the documents do not arrive at the port of debarkation on or before the time of arrival of the goods, storage charges accumulate.

In foreign trade, it is customary to send out at least one duplicate copy of each letter or document on a later boat, to avoid delay through possible loss

of the mail. Sometimes the copy is enclosed with the next letter, or it may be dispatched independently. Care should be exercised that the copy actually does go on a later boat. The indifference of the average export departments of American houses in regard to sailing dates often leads to the absurd situation that original and copy reach their destination by the same boat.

Letters that note the steamship by which it is desired they may be sent are so dispatched. If sailing of the vessel is postponed, correspondence is dispatched by the first steamship taking the regular mail.

7. *The invoice clerk.*—The invoice clerk has a responsible position, because the technique of calculating all the invoice items is extremely involved and exacting. He should possess a definite knowledge of trade usages in various markets, of the policy of the house, and of special agreements between the firm and its foreign customers.

8. *The shipping clerk.*—The responsibility of choosing the shipping route, of providing for the cargo space, of filling out the shipping documents, and frequently, also, of taking out the marine insurance, rests with the shipping clerk. An information file is frequently kept by him, which serves to supply the necessary data from which to calculate c.i.f. quotations.

9. *The credit man.*—The foreign credit man's function is not essentially different from that of the

domestic credit man. He may find it difficult, however, to obtain information in as complete and detailed form as the domestic credit man receives his. Foreign firms are far less willing to give information about themselves than domestic firms. This means that, in dealing with foreign credits, it is necessary to use more judgment. The foreign credit man must, therefore, not only possess a thorough knowledge of foreign conditions, but a great deal of business judgment. The relationship that should exist between the export manager and the foreign credit man is of some importance, and each firm must decide for itself what seems advisable.

The foreign credit man may be placed directly under the export manager. This has one advantage. The credit man, being in close touch with the manager, cannot fail to acquire that point of view and appreciation of foreign conditions which make it possible for him to interpret foreign information correctly. But there is also a danger that he may be unduly influenced in his judgment by the export manager, who, in his desire to make a good showing in sales volume, may sometimes wish to overlook evidences of unsafe credit conditions.

For this reason, many firms prefer to place the responsibility for passing upon foreign credits in the domestic credit department. This functional specialization has the additional advantage of assuring a consistent credit policy.

10. *The information file.*—A special record is

generally kept of the different rules to be followed in making various shipments. It is necessary to have available for ready reference such information as the number of invoices required, the consular fees, the sailing dates of steamers, the length of time required for the journey, the dates of sailing of mail steamers and special port charges, if any.

Foreign and domestic magazines will yield many items that may prove of future interest. Much may be gleaned from trade journals, consular documents, and especially from the reports received from traveling salesmen.

Carefully-checked mailing lists are an important feature of the file. Numerous export directories are published in this country and abroad, from which, with proper judgment, good mailing lists may be compiled. Among the best directories in the English language may be mentioned Kelly's "Directory of Merchants, Manufacturers, and Shippers of the World." The Bureau of Foreign and Domestic Commerce has printed mailing lists of dealers in various parts of the world. The Philadelphia Commercial Museum and the numerous trade organizations can also supply valuable lists.

The card index clerk or librarian should build a collection of catalogs of competing firms of various nationalities serving the same foreign markets.

11. *The traveling salesman.*—As will be explained in a later chapter, the traveling salesman abroad must do much more than just sell. He must be the eyes

of the firm in the foreign fields. Beyond the ordinary sales reports, detailed information should be required from him concerning the climatic conditions, the prices of accommodations, the habits of the people, credit standing of customers, competition, and such general data as will aid the home office in understanding the conditions that confront him.

An export department, equipped with this information will have no difficulty in keeping in close touch with its foreign customers, in understanding their problems, and in planning future sales campaigns. The salesmen who are to follow in the field will have a complete picture of what they will encounter, before leaving the home office. They will be able to prepare themselves for the most effective methods of approach, and they will be able to select the best time for their visits. The correspondent will also find this information valuable when introducing a personal touch into his letters.

12. *The use of cables.*—Cable messages are always expensive. From New York to Western Europe the rate is between ten and thirty cents per word, depending on the type of service and the distance, but to other parts of the world the price is considerably higher. In order to save money, codes should be used. The Western Union Cable Code and the A. B. C. Code are in international use. There exist, moreover, a large number of special codes for the various trades. It is customary to mention the code used in the letterhead of the firm.

When using a code in cabling a foreign customer, it is necessary to use one of the codes mentioned in his letterhead. The author, when in Europe, spent two days in trying to discover the code book that would enable him to decode a message received from an American firm. Finally he was forced to cable back to find out what code was used. Thereupon he had to spend another day in traveling to a near-by large city where he was able fortunately to obtain the use of the code book at the branch of an American bank. Such delays and annoyances can be easily avoided by never using a code unless there is not the slightest doubt that the addressee knows which code is probably used, and has ready access to the code.

Many firms devise private codes, and in their catalogs include code words by means of which orders may be cabled. Here, again, no use should be made of this code where there is the slightest possibility of the customer not having access to the code book.

13. *The accounting records.*—The scope of this text does not permit of a detailed discussion of the accounts to be kept in an export department. It will usually prove best to keep the records relating to the export business separate, and to carry controlling accounts for them on the general books of the firm.

Accounts with customers, agents, or branch-houses are frequently in foreign currency. Several ways of handling them are in use. One way is to charge the accounts in which foreign money is involved by entering in parallel columns the actual amount of the

foreign currency and the corresponding amount in American money, on the basis of the par of exchange. The offsetting entries on the accounts kept in American money are all made on the basis of the par of exchange.

When a payment is made, the difference between the actual equivalent in American money and the amount on the basis of the par of exchange is debited, or credited, as the case may be, to an account, "Exchanged." When closing the books at the end of a fiscal period, a similar entry is made to this account to cover the rise or fall in exchange. Some accountants prefer to ignore this last entry in their balance sheet, since it represents a purely speculative loss or gain which should be ignored until actually liquidated. This method has the advantage of simplicity.

Another method generally used in English export houses is to charge accounts with the equivalent in English money on the basis of the rate of exchange current at the time the entry is made. When the books are closed, the balance in foreign coin is then converted into English coin on the basis of the rate of exchange of the day. The difference between this balance and the balance actually found in the columns containing the English equivalents is then debited or credited to the exchange account. By the use of this method, the exchange account is not a mere bookkeeping device, but its balance shows the actual gain or loss on account of exchange during the period.

14. *Additional records.*—If business is carried on

"open account," it is customary to pay and to draw interest on all balances. The European export houses usually apply a different rate of interest to the credit side of the account from the one applicable to the debit side. This necessitates the keeping of elaborate "accounts current" with each customer. The principle is similar to that which governs the keeping of call loan accounts in the American banks.

The accounting department should keep a "record of orders" in which the history of every order received is kept. This record must include the date when the order was received, when acknowledged, when work was started, when the order was placed with outside firms, when delivery was promised, when actually made, when shipping permit was actually received, when the shipment should have been delivered, when it was delivered at the dock, the sailing date of the vessel, and the date of the shipment advice sent to the foreign consignee.

A record of this kind will prove valuable for fixing responsibilities for delay, and likewise serve as a guide in making binding promises as to delivery in future contracts.

15. *The need for accuracy.*—The American business man has, on the whole, little patience with minute calculations and hair-splitting. This has earned for him the reputation abroad of being careless and inaccurate. The European business man, on the other hand, has an almost superstitious respect for accuracy in details. It cannot be urged too strongly that ac-

curacy in filling orders, in following instructions, in making statements, and in rendering bills is a vital element of success in dealing with foreign customers.

16. *The location of the export department.*—The location of the export department may be a question of considerable importance. Where the factory is located at an inland point, two possibilities present themselves. The department may be located at the factory, or it may be located at the seaboard. Both locations have certain advantages and disadvantages, and the final decision will usually depend, to a large degree, upon the kind of articles that are sold.

At the factory, a close relationship and better cooperation can be established with the production department, and with the higher officers of the concern. This may be important, especially where frequent minor changes in the make-up of the article are required in order to adapt it to the needs of the foreign market. Conflicts between the domestic and foreign sales departments, and between the foreign sales department and the production department, are less likely to develop where such a close relationship exists.

On the other hand, it cannot be denied that a seaboard location has the advantage of enabling the export force to keep in close touch with the outstanding men in the export field, to watch the shipments more carefully, and to establish relationships with banks familiar with foreign finance and equipped to give credit information concerning foreign firms. Should

any foreign buyers arrive in this country, the seaboard office is more likely to be aware of the fact, and to be in a position to entertain them and to land their orders, than an office located a thousand miles inland.

Some firms, notably one of the largest exporters of hardware, have combined the two locations by establishing the principal export office at the factory in the Middle West, and by maintaining, at the same time, a seaboard office, which attends to the shipping details and forms a means of keeping the home office in close touch with export circles in New York City.

REVIEW

State some of the matters that must be borne in mind in carrying on a correspondence with foreign firms.

Explain the difference in attitude with regard to the signature of a letter existing abroad and in the United States.

Give the arguments in favor of and against placing the foreign credit man directly under the export manager.

What are the different kinds of information which should be accumulated in the export office?

State the different ways in which the accounts with foreign customers may be incorporated in the books of the concern.

CHAPTER XIV

COÖPERATION FOR FOREIGN TRADE

1. *Foreign competition keener than ever.*—Frank A. Vanderlip, former president of the National City Bank of New York, said during the World War:

> So long as the war goes on, the world will be so tipped askew, in all probability, that the gold holdings of other countries will continue to fall into our lap. As the gold falls it will be added to our reserves. As those reserves grow, so will grow our credit structure based upon them. When the war is ended we will find all Europe depleted of its gold, staggering under a weight of inflated bank and government paper and under the direct stress to rebuild its stock of gold. The point of attack will be our gold reserves. The methods will be every means known to trade and commerce by which merchandise, securities, and credits can be exchanged for gold.

These words describe, from the point of view of the banker, the situation in which the United States found itself after the war. From the point of view of the foreign trader, it may be stated in slightly different terms. The United States, through the inflow of gold and the consequent increase in the price level, had become a good selling market, but a poor buying market. The level of wages, and the prices of raw

materials and of transportation had advanced, placing the American business man in a very unfavorable position.

The United States has not ceased to attract gold from abroad. The discrepancies between current interest rates abroad and in the United States has encouraged the continued flow of funds to this country, a condition still aggravated by the fact that payments of interest and of principal are being made upon the debts contracted by the countries of Europe during the World War.

Although the return to a gold standard and the readjustment of the reparation settlement have brought stability to Europe, prices in many parts of the Continent have not yet fully made their adjustment to world prices. Some countries are still notoriously "cheap." Czechoslovakia, Poland, and to some degree France, show prices substantially below those in the United States.

Normally, such differences in prices would enable the countries of low prices to sell where prices are higher, and the importations of goods into the United States would, on this basis, increase rapidly. As a matter of fact, they have increased, but our increased import duties and other restrictions of an administrative nature are greatly hampering importation.

It is still possible to settle the accounts by triangular trade. European nations may sell in South America, and the proceeds may then be used to purchase raw materials and foodstuffs to be sent to the

United States. This is what takes place, in reality. It is also possible that the balance created in South America may be used to establish long-time investment credits. The returns will then flow to the United States gradually, as interest payments and dividends. To the foreign trader this process is as disturbing as any other, for it spells competition for him, no matter where he goes.

The necessity of making payments on the huge debts other nations have incurred in the United States during the war, and the high duties imposed upon imports by the United States tariff, have contributed to increasing competition in every market of the world. Foreign industries must sell. If they cannot sell in the United States they must sell elsewhere. Unless balances are in some way accumulated outside the borders of a country, that country cannot make payments abroad, except by means of the temporary expedient of shipping gold or obtaining additional loans.

2. *The advantage of size in export trade.*—In this competitive struggle the American firms have frequently a great advantage. It is the advantage that mere size gives. It takes a great deal of investment to organize a selling campaign abroad, to maintain trained and efficient representatives in foreign markets. The additional advantage of a possible lower cost of manufacture, resulting from the advantage of large scale production, also plays a part, but it is undoubtedly true that size in itself is an advantage.

One of the reasons why the International Harvester Company, the Corn Products Company, and the United States Steel Corporation have been successful in foreign trade is because they are large. No small organization could have built up the necessary selling organization. A small manufacture cannot afford to develop the foreign trade field intensively. Moreover, he may not be able to fill foreign orders when they are received. They are often for large amounts, and to fill such orders, which might never be duplicated, a small plant would have to sacrifice some of its domestic trade. This would be inadvisable. In one of the publications of the Federal Trade Commission it is said:

> The small producers of cement, for example, are not now able to get very much foreign trade for two reasons. In the first place, they cannot afford to maintain representatives in South America, but such representatives are necessary in order to sell cement. As a result these companies have to sell through an exporting commission house. In the second place, they cannot take large orders; no one of them can guarantee deliveries of the quantities required. If they undertook to do it they would have to sacrifice domestic business in order to fill the contract abroad.
>
> Individually they cannot fill large contracts, but collectively they can; one or two companies could not do it, but twenty companies could take care of it. At present there are only two or three companies large enough to engage in foreign trade.

3. *The concentration movement in Europe.*—The character of foreign competition has also been af-

fected by the very pronounced tendency toward the formation of strong groups of industries. The object is always to present a united front against competition from without and often also to obtain some of the well-known advantages of large-scale operations.

The forming of such industrial groups may be along two lines. It may take the form of a combination, by which the individual firms are absorbed in a larger body, or it may take the form of a cartel, in which the firms preserve a large degree of freedom of action and remain separate entities.

General economic conditions, as well as national habits, play a part in determining the form that such grouping of industries will take. As a general rule, it may be said that, in times of great industrial activity and rising prices, when the problem is to produce enough to meet the growing demand, the process of absorption into larger units is likely to be more prevalent. There are two kinds of such combinations. They are called "vertical" and "horizontal," indicating that, in the first, the combination is among firms representing successive stages in the process of production, and, in the second among firms engaged in the same type of production.

On the other hand, in times when the market is no longer able to absorb the total output, and competition threatens to degenerate in a cutthroat battle, it is then that firms will combine to soften the competitive struggle. While preserving their individuality, they will form a cartel, or agreement to limit produc-

tion, or in other ways endeavor to bring production more in accord with the needs of the market.

4. *Foreign competition more along national lines.* —During the war period, coöperation between firms became almost a necessity, and they were often forced into it by the governments. Industry was not slow to learn its lesson. Sir Richard V. Vassar Smith, Chairman of Lloyd's Bank, before the Institute of Bankers of Great Britain said: "The day of small industries on individual lines is gone. Manufacturers and traders must organize for united effort." Great Britain can furnish many illustrations that this lesson was put into practice.

Many firms engaged in the various stages of the iron and steel business have amalgamated, and have formed vertical combinations which enable them to cut their cost of production. It is obvious that, by eliminating the profits and selling costs formerly connected with the marketing of raw materials and half-finished manufactured goods, the combination makes considerable savings.

The tin-plate and the textile industries also furnish examples of such combinations. Most impressive is the Lever Brothers concern, soap manufacturers, in Liverpool. Through the absorption of a large number of enterprises, this company now owns plantations in many parts of the world, and operates steamship lines, oil refineries, and soap works in Europe and America.

On the Continent, similar large combinations were

formed. Especially during the period of inflation, when the small concerns had difficulty in obtaining the necessary credit, the combination movement advanced rapidly. The most spectacular combination was that created by Stinnes. The Stinnes group was created partly by outright absorption, and partly by the acquisition of financial control over no less than 1,390 undertakings. These concerns represented almost every conceivable type of business activity. The combine included producers of steel, coal, chemicals, cable, and electrical goods; it included printing and publishing establishments as well as shipbuilding and transportation enterprises. The readjustments necessitated during the period of monetary reform and deflation, and the death of the founder, made this Stinnes group only short-lived.

5. *Coöperative selling organizations.*—The after-war period also saw a marked development in the establishing of coöperative selling organizations.

In England, combinations are found, especially among the engineering firms. These are usually made up of noncompeting firms producing complementary products. The British Engineering Company of Egypt, the Egyptian Engineering Company, Ltd., and the British Manufacturers, Ltd., are examples. The Anglo-Chinese Engineers' Association consists of some forty noncompeting firms, and has as its purpose to establish "go-down" (warehouses) under Chinese-speaking Englishmen in various districts, for the selling of the products of

the firms, and for bidding on plant and government construction.

In Switzerland, the Free Society of Swiss Chocolate Factories controls export prices. Before the war a similar combination between Swiss and German firms, the Cocoa-Buying Co. Ltd., located in Hamburg, bought directly from the planters.

Swiss cheese, condensed milk, and even laces are exported by coöperative undertakings. As early as 1913, the Swiss Trading and Industrial Company for Brazil was formed, to act as a selling organization for a group of noncompeting firms producing machinery, and a similar organization, especially for Argentina, was founded under the name Societé Swisse d'Exportation.

6. *Buying combinations*—Coöperative buying is not as commonly found as coöperative selling. Many of these coöperative buying organizations are created by retail organizations selling directly to the consumer, and making use of their coöperative purchasing plan to cut out the wholesaler and jobber. Germany can offer several illustrations of such organizations. The most successful, however, is the Coöperative Wholesale Society, Ltd. of England, which was created in 1863 by the combination of some 1,400 consumers' coöperative societies. These societies have a membership in excess of 5,000,000 and a combined capital of about $800,000,000.

Originally created for coöperative buying only, since 1872 the society has also undertaken manufac-

turing. Branch offices are maintained in New York, Montreal, Spain, Denmark, Sweden, Ceylon and West Africa. In coöperation with another society, the Scottish Coöperative Wholesale Society, organized in 1868, with a share capital in excess of $7,000,000, it operates tea estates in Ceylon and Southern India, as well as cocoanut groves in Africa. The New York office, alone, buys yearly over $8,000,000 worth of American products, chiefly wheat, bacon, lard, leather, dried fruits and canned goods.

7. *The cartels.*—In no country has the movement towards coöperation made such strides as in Germany. The movement started long before the war, and had the approval, in some cases even the active support, of the government. As early as 1836, a cartel was formed in the alum trade, but the movement did not gain full strength until the period of consolidation of Germany after the Franco-Prussian War, and the period of the protection of manufactures which followed it shortly, about 1879.

The cartel movement had a set-back during the war and the years immediately following the war. This was to be expected. It was the period when production barely supplied the demand. It was also the period of rising prices. Such conditions do not encourage the establishing of cartels, the primary purpose of which is to limit production in order to lessen the severity of the competitive struggle in a market unable to absorb all that is produced. Cartels

have been called "children of adversity," and rightly so. After the period of deflation began, with its readjustment of prices and shrink-market, cartels again began to be a popular form of combination.

8. *Different forms of cartels.*—The cartel may assume different forms, and its power over the market will depend upon the purpose for which it was organized. The simplest is the "conditions cartel," which is an agreement by which the terms of selling, the terms of payment, the delivery conditions, and the different grades to be sold may be regulated. Such a cartel, leading to a standardization of the selling conditions, may have a very beneficial effect upon the trade. It lessens possibilities of trade disputes. It is not likely to exert a very noticeable influence upon prices.

The next type of cartel is the price cartel. Here we see a real attempt to influence the market. The terms of the agreement are unmistakable: "Members are forbidden to sell below the established price within the territory to which the agreement applies," is a clause commonly found in these agreements, and it is enforced by means of a penalty.

The most important form of cartel is, however, the territorial and allotment cartel. These are cartels that limit the supply of goods that shall be placed upon the market, either through dividing the territory among the members, or by limiting the production of the group by a system of quotas, determined

on the basis of the capacity of the plant and the needs of the market.

The highest form of the cartel is the syndicate form, in which all selling is placed in the hands of a central organization. Sales are then made as the market allows, and the deliveries are allotted, as far as possible, to each plant on the basis of the production quotas. Adjustments are made quarterly, or half yearly, through the payment of penalties into a common fund, for overproduction, and through allowances drawn from this fund, for underproduction.

9. *The international aspect of national cartels.*— The cartels above described are all of local character. The international significance of these organzations is that the national industry of a country, through them presents a united front to foreign competition.

At present, practically all important industries of Germany are members of some cartel-like organizations. In other countries of Europe the same situation prevails to a lesser degree.

But there is another very serious aspect to the cartel movement, in its international relations. When the domestic market is unable to absorb the total output of the national industry, and by mutual agreement the quantity placed on the market is restricted, the attention is naturally drawn to the foreign market as a possible outlet for the overproduction.

It is then that the cartel begins to be a real danger to industries in other parts of the world. Many car-

tels have developed elaborate schemes of export bounties, whereby the members were enabled to sell abroad at prices below the domestic prices. The bounties are paid out of the fund accumulated by a tax levied from the members, on the basis of their domestic sales. Against such "private" bounties the only defense is in the anti-dumping duties, referred to in an earlier chapter.

Belgian, French, German and British organizations have been accused of this practice. We may assume that American and Canadian firms have not offended. On the contrary! In an investigation made by the United States Tariff Commission in 1921, it came to light that Canadian manufacturers of harness leather, sole leather and lumber had been guilty of the practice of dumping. As early as 1906, the Tariff Reform Club published a list of several hundred commodities exported by American manufacturers which were sold abroad at less than the domestic prices. It is always well to remind ourselves of these facts, so that we may approach such questions in the right attitude of mind.

10. *International combinations.*—As the competitive struggle of industry was transferred from the local and national markets to the markets of the world, a need began to be felt to limit the severity of the struggle there in a fashion similar to that which had proved itself effective domestically. It was in response to this need that international cartels were organized. They are like the national cartel agree-

ments to regulate the competitive struggle. The agreement in this case is, however, between strong national groups.

A great many such international agreements are now in existence. The international Lamp Syndicate includes the incandescent lamp manufacturers of Germany, Holland, France, Scandinavia, Great Britain, Italy, Japan and the United States. The European wood screw association is a price cartel that encompasses all of Europe and also Japan.

The international rail cartel, the iron tubing cartel, the German Belgian wire cartel, the bottle cartel, the enamel cartel, the chemical cartel, the continental linoleum cartel, the zinc cartel are but a few of the large number of cartels that have been formed on an international basis. Those countries that already possessed strong domestic cartels were, of course, in the best bargaining position in joining such organizations of international scope.

11. *Legislation concerning combinations.*—The American law forbids the forming of combinations that act in "restraint of trade." Trade associations are legal, but only as long as they do not restrain the freedom of action of their members. The Sherman law and the Clayton law, as well as the law creating the Federal Trade Commission, all aim at one and the same thing. They attempt to prevent the forming of agreements among producers which will deprive the individuals of their freedom of competitive effort.

The Sherman Anti-Trust Law of 1890 was based

on this principle of enforced competition. Section 1 of this law reads:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several states or with foreign nations, is hereby declared to be illegal.

The Wilson Tariff Act of 1894 also declared all combinations that aimed to control the import trade, contrary to public policy, illegal and void.

The application of the Sherman Act to foreign trade was somewhat doubtful. In the case of the American Banana Company *vs.* the United Fruit Company it was held that the law did not extend beyond our own boundaries, but business men hesitated to combine for export trade for fear of exposing themselves to suspicion of illegal practices at home.

The Clayton Anti-Trust Law of 1914 made no mention of foreign trade. The position of the exporter was, therefore, left in doubt.

Without entering into a discussion of the wisdom of such restrictive legislation, it is clear that, when in other countries combinations among producers are not only legal but encouraged, the time must arrive when American manufacturers, forced to fight their battles single-handed, will discover that they are at a disadvantage.

As the war drew to a close, and the nature of the competition which American business was likely to meet in the markets of the world, once peace was declared, began to cause concern, this matter became

the subject of much public discussion. The question was finally settled by the passage by Congress of the Webb-Pomerene Bill, April 10, 1918—a bill "to promote export trade and for other purposes." This Act declared, first of all, that nothing in the Sherman Act "shall be construed as declaring to be illegal an association entered into for the sole purpose of engaging in export trade."

The export association is thereby declared legal, but the same section continues to explain that such associations must not in any way enchance or depress intentionally the domestic prices. The administration of the Act was placed in the hands of the Federal Trade Commission, the powers of which were enlarged, enabling it to take such legal action as might be necessary to prevent the use of unfair methods of competition.

Every association organized for export trade must file with the Federal Trade Commission, within thirty days after its creation, a written statement of the location of its offices, a copy of the articles of incorporation, and the names and business of its officers and stockholders. A yearly report containing the same information must be submitted, and the Federal Trade Commission is given the power to require further information.

12. *The forms of the new combinations.*—The selling organizations formed under the Webb law fall into three main types. In the first type, a group of competing manufacturers will organize an export as-

sociation by contributing funds to the purchase of stock. This working capital is then employed to establish offices, warehouses and showrooms, to pay the salaries of foreign salesmen, to carry on the work of advertising, and for general development purposes.

In the second type of association, each one of a number of manufacturers creates a subsidiary for export business only. These subsidiaries form a trade association, and register under the Act, without having a central selling agency or stock company of any kind. The executive staff of the association makes trade and credit investigations, and supplies this information to the association. The expenses are paid from dues or proportional annual assessments, based on yearly sales of members. The subsidiaries may have "gentlemen's agreements" as to price, credit, and allocation of territory. If they agree on a free field they may determine prices, credits, warehouse facilities, and other factors.

Those manufacturers who believe a demand for an American product may be created abroad, often form a tentative association for an advance investigation. For the purpose, they assess themselves on a sales or a mercantile-rating basis. With the funds thus created, well-trained men are sent abroad to secure definite information about the possibilities of foreign markets in which the manufacturers hope to compete against foreign merchants and manufacturers.

13. *The effect of the Webb-Pomerene law.*—A

large number of associations and corporations have now filed statements and have been approved by the Federal Trade Commission. The products affected include a wide variety of goods—lumber, sulphur, milk products, locomotives, copper, and machinery.

The number is not so large as had been anticipated. The reason lies in the fact that coöperation is not always possible, nor desirable. The simpler the product, the more easily coöperation can be reached in selling. For that reason, the Webb-Pomerene organization will probably prove most successful in the field of raw materials, or of simple manufactured goods.

It is interesting to note that, although the argument at the time of the introduction of the bill in Congress was that the law would especially benefit the small producers, many of the associations comprise very large producers. In many industries it seems that both large and small producers are encouraged to participate in the export association. In fact, a few of the Webb-Pomerene associations make admission to membership dependent upon membership in a trade association, and admit all who are willing to coöperate.

The reason why large producers are advocates of participation of all manufacturers in the respective industry must be sought in their desire to find an outlet abroad for any surplus that might exist, and that would otherwise depress the prices in the home market.

Many associations have been formed to combat the highly-organized buying combines to which reference was made earlier in this chapter. The exporters of lumber to Australia and the Continent of Europe face such buying combines. The copper trade of the world was also dominated for years by a large German organization with affiliated companies in England, Belgium, Spain, France, Africa, and Australia. The creation of the Copper Exporters, Inc., in 1926, by the American producers of copper, under the Webb-Pomerene law, for the time being has given the American producers the upper hand in the world's market. This change in control over the copper market has called forth renewed activity in the European-owned mines of the Congo, Rhodesia, and also in the Russian copper mines, in the hope of reëstablishing the European control over the market.

14. *Criticism of the Webb-Pomerene law.*—It is claimed by some that the law has not created anything of real value. Combinations between manufacturers of noncompeting lines—so these critics claim—existed and were legal before the law.

There is truth in this contention. Without doubt, such combinations were legal before the law. There are also many examples of successful coöperative selling efforts of noncompeting but complementary lines. American hardware dealers for years have sold in the Australian market through a selling combination, which handled noncompeting lines at low cost. In cotton goods, in boots and shoes, in leather goods, and

in the electrical business, similar activity was found before the law was passed. The National Paper and Type Company, organized in 1900, with a capital of $2,700,000, is really a coöperative selling agency for noncompeting firms in the paper and printing industry.

Another criticism of the law is that it takes a great deal of imagination to accept the theory that manufacturers can combine for export, and act jointly in selling abroad, while continuing independent competitive activity at home. Those who make this criticism say, "Why not face the situation frankly and revise our domestic law as well?"

15. *The attitude abroad.*—There is also a good deal of truth in the criticism that the law was considered an unfriendly and unfair act by foreign nations. In many countries, the cry was raised, and it is still heard from time to time, that the American government, by this law, allowed its citizens to practice in foreign trade methods which it had declared unfair when practiced in the home market.

La Epoca, the government newspaper in Argentina, said: "South American markets will be left to fight as best they can against the same commercial practices which are prohibited between the states. It is not likely we shall find tolerable that which the states have prohibited because it was noxious to them." The same criticism was made of the law in France and Germany.

But it must not be forgotten that the American

manufacturers are now only permitted to do what their foreign competitors have been allowed, and even urged, to do by their governments. It is possible that, from time to time, dumping may be resorted to by these combinations, but that is not a new development, and it took place prior to the passage of the law. There is no reason to suppose that the fact that the producers are allowed to combine will aggravate this situation.

REVIEW

State the advantage, in export trade, that is attached to size.

Explain how foreign competition is conducted more on national lines than before the war.

Give an example of a large coöperative buying association.

Enumerate and define the four different types of cartels.

Explain the conditions that made the passage of the Webb-Pomerene Act seem desirable.

CHAPTER XV

SELLING ABROAD

1. *A definite policy essential.*—Even more carefully than in developing domestic sales, a concern entering upon the foreign field must determine upon a definite policy with regard to all the phases of selling. A definite policy must be maintained with respect to the product, to the terms of sale, the prices, the methods of selling and advertising, and of handling credits.

Such definiteness of policy is all the more necessary in foreign trade because the representatives of the firm will be separated by long distances from the home office. Nothing is so disconcerting for a salesman traveling abroad as sudden changes in policy for reasons unknown and inexplicable to him. He soon begins to lose confidence in the management at home. He begins to feel that the lightning may strike at any time and undo whatever he has built with great effort. What is equally important, he will find it exceedingly difficult to explain the various changes to his foreign clients. A change in policy in the foreign field is a very serious matter.

2. *The salesman should know the goods.*—Strange as it may seem, it would not be difficult to quote many

examples of salesmen who ventured into the foreign market with a very inadequate knowledge of the products they were to sell. This is especially true of the so-called "combination salesmen." These are salesmen maintained abroad by a combination of manufacturers in noncompeting lines. This method of selling was at one time advocated as presenting the advantage of small expense, while at the same time affording the firms personal representation. It is obvious that no one man can be thoroughly acquainted with all the products he is supposed to sell under such an agreement and this method is, therefore, not to be recommended, except for very simple products. Highly complicated articles such as adding machines, typewriters, and automobiles require such an intimate knowledge of mechanical details that only specialists can sell them with success.

The domestic salesman can, and usually does, take a great deal for granted in explaining his product to the prospective buyer. He possesses a certain degree of knowledge, in common with his customers, upon which he can build his further arguments. If he is selling an automobile he may say: "This car has A. C. electrical equipment." This statement usually goes unchallenged. The customer may have preferred a different brand of equipment, but he knows that the A. C. is a satisfactory equipment found in some of the most expensive cars. He accepts the statement as a point in favor of, or against, the product, from his standpoint, without further analysis.

There are not many domestic salesmen who can explain in detail just where the advantage of the A. C. equipment lies, as compared with other brands. Fortunately for them, this knowledge is not usually required.

It is different abroad. The foreign purchaser, not knowing the A. C. equipment by reputation, wishes to make a comparison with systems of which he has some knowledge and he will ask, "What do you mean by A. C.?" Now the test of the salesman's knowledge comes. If he is able to answer satisfactorily, the sale may be made. It is quite certain that, if he is not able to explain the A. C. equipment, the sale in all probability will not be made.

An important factor in determining the type of questions that may be asked by a prospective customer, is the advertising that has been done in the market by competing firms. Through advertising, a consumers' demand is created for certain types of equipment, and for certain qualities that the public then demands for new articles offered. The salesman abroad will thus often be under the necessity of explaining details of the article which at home would not be subject to analysis.

3. *The salesman must know the factory.*—He must not only know the article, and be able to explain its composition and its operation, but he must also know how it is made, and what the production problems are which the factory is meeting.

It gives the salesman something of the pride of

the craftsman to know how the article is made, the care that has gone into its manufacture, the many inspections that must be passed before the product is sent into the world as finished. He can speak with confidence and conviction if any detail of manufacture is questioned. He has seen it made and knows.

Knowledge of the manufacturing processes also makes it possible for him to have at least some knowledge of the possibility of making changes in the product to adapt it more fully to the needs of the market. He can also speak with some assurance when the question of deliveries comes under discussion. He knows how long it takes to produce the article, how large a stock is usually carried, whether the goods are accumulated in partly-finished or completely-finished form, whether the raw material and parts are carried in stock, or whether time may be required to secure them from other firms.

Nevertheless, he will be compelled, in most cases, to submit, any problems of importance to the home office, but he will often be able to save time and trouble by eliminating from further consideration proposals that obviously cannot be accepted.

The personal relations which are established between the salesman and the domestic organization will also lead to more harmonious coöperation. A letter and explanation, or a suggestion, received from the man who has spent some time at the plant learning the product, and who returns periodically to refresh his knowledge, will be received with more

good will than a similar communication from a perfect stranger.

4. *The salesman must study local shipping conditions.*—The main object of a preliminary study of trade customs is to create a sense of relativity in the minds of the salesmen. They become accustomed to the thought that the institutions and customs among which they grew up are the outcome of peculiar local conditions, and they start out upon their foreign campaign fully prepared to look for differences.

This attitude of mind is one of the most valuable possessions of foreign salesmen. By searching for different methods, and different shipping or customs requirements, they will often discover valuable information which, when sent to the home office, will save time, annoyance and expense in filling orders.

5. *A salesman should understand credits.*—Because of the difficulty of securing accurate credit information regarding foreign firms, and the time consumed in gathering such information, a salesman with "credit sense" can often save his firm money, and contribute to cutting the time required in filling orders. In principle, the salesman aims at the largest possible volume, and the credit man at restricting this volume by rejecting undesirable risks. Often, the salesman and the credit man are at odds on this account, and the salesman feels that his efforts are not being appreciated, and are wasted upon an organization ruled by excessive conservatism.

In foreign trade, the situation is not different, and

yet the most successful salesman, in the long run, will be the one who does not attempt to sell to poor risks, and who does not encourage his customers to overbuy. Some firms, in order to reward this commendable method of selling, arrange for a bonus to be awarded to salesmen whose customers show a good credit record.

The salesman can discover facts of importance to his principals, that could not be obtained through any other source. He, alone, can ascertain how rapidly the stock of a prospective customer seems to be moving, whether there seems to be a lack of judgment in purchasing, as evidenced by an ill-balanced stock of goods, and whether the management of the concern is wide-awake and able to undertake effectively to sell the goods it is about to buy.

These are matters of quite as much importance as the credit reports received from banks and other credit agencies. Often, a good credit report from the usual sources may thus be proved to be too optimistic, while, on the other hand, a firm with an indifferent credit rating may turn out to be a good firm to do business with, because of the evident honesty and energy of the management.

6. *The salesman should assist the purchaser.*—The salesman, as a rule, will find the foreign customer more than willing to listen to the methods which have proved effective in selling the goods elsewhere. In most countries, the admiration for American methods is quite genuine, and although customers will fre-

quently argue that certain methods would not be suited to their market, they are usually surprisingly willing to try new methods.

The first thing is to teach the customer all that he needs to know to display the article attractively. Few countries have the attractive displays in retail and wholesale establishments found in the United States. Few countries, also, have developed the elaborate dealer's aids that are so commonly used in this country.

When introducing American goods into a foreign market, it is impossible to give too much attention to impressing upon the dealer the service that the factory places at their disposal in assisting them in selling the goods. The salesman should also emphasize the immediate results secured by means of these coöperative efforts in other places. Once these seeds have been sown by the salesman in a personal interview, future coöperation can be more easily secured. In short, the salesman, in selling to foreign wholesalers and retailers, should make them feel very definitely that the factory is interested in helping them to sell the goods, and does not consider the transaction successful until the local dealers have made their profit. In return, the local dealer should coöperate with the manufacturer in making full use of all material supplied in the form of display equipment and catalogs.

7. *The salesman's relationship to the home office.* —The distance that separates the salesman from the

home office, and the fact that it is extremely difficult for a person to travel abroad for a protracted period without losing a good deal of the point of view of his associates at home, make the matter of the relationship between the salesman and the home office one of peculiar importance.

This relationship consists of two phases—the communications sent by the home office to the salesman, and those sent by him to the office. We shall consider each of them in some detail.

8. *The preparation of the field.*—It is quite essential that the domestic office assist the salesman by introducing him to the market. This can be done by writing letters to be dispatched according to a definite schedule, so that they may arrive at the various places in the salesman's itinerary a few days before his arrival.

These letters should be addressed to the customers of the firm, and to the newly-discovered prospects, announcing in dignified terms the future arrival of the salesman. These communications serve a threefold purpose. They make certain that there will be no question in the minds of the customers as to the authority of the salesman. This is quite important, for there are many free-lance salesmen who solicit orders, trusting that the factory will be glad to fill them, once they have been secured. That such free-lance selling is likely to result in unsatisfactory relations is evident, and for this reason unannounced salesmen are often received with suspicion.

Another advantage of the letter announcing the arrival of the salesman is that he is more likely to find the head of the firm at his office, and prepared to discuss business when he arrives. The foreign business man dislikes to be surprised. He resents being suddenly confronted with a strange person, who arrives unannounced, and now suddenly expects him to devote a great deal of time to a discussion of matters which, as yet, interest no one but himself.

The first reaction is, therefore, to tell the visitor that the head of the firm is busy, is away on a holiday, or, more truthfully, that he does not care to see him. Although interviews can eventually be secured, delays will result that could have been avoided by a letter announcing the arrival of the salesman.

Of equal importance is the fact that such letters enhance the prestige of the salesman. He is no longer a lone person, wandering in a foreign land; he has become the personal link joining the important American house with the foreign dealer. He has become, in a sense, a trade ambassador. His reception cannot fail to show the effect of this increased prestige.

9. *The general letters of introduction.*—The salesman should also be provided by his firm with a number of documents by which his authority and the existence of his firm may be proved. In many countries, the salesman, before he can take orders from local firms, must be able to prove to the authorities that he is authorized to do so. He may not be able

to secure his license as traveling representative without a document duly signed by the head of the firm, and in the presence of a notary public, by which he receives his legal status as an agent for the specific purposes of his firm.

Not all countries require this, by any means, but where it is required, the salesman is helpless until he secures it. In case of disputes, or when the salesman is called upon by his firm to look after its interests when goods have been damaged or lost in transport, or when adjustments with customers must be made, such a letter of authority may be a very useful document, if not absolutely necessary.

Although, again, not always necessary, another document may often be quite useful to the salesman in his dealings with foreign government officials. This is a letter from the local chamber of commerce stating that the firm is established in the city, and is known to the officials of the chamber. If we remember the semi-official character of most foreign chambers of commerce, the impression that such a letter will make abroad is easily understood.

Another set of letters should be provided, introducing the salesman to the foreign branches of American banks, or to foreign banks with which these American banks have business relations. Such letters can usually be secured from the banks with which the exporting manufacturer has his regular business dealings. They will prove valuable for many purposes. The salesman can obtain a great deal of use-

ful information from the banks established in the foreign field, both with respect to general business conditions and methods most likely to produce results, and with respect to individual firms.

These letters may also be of value when it is necessary for the salesman to give references. His standing is at once established if he can give some well-known bank as his reference.

10. *The samples.*—The samples that a salesman is to carry with him must be prepared with great care, and a study must be made of the laws governing samples in the countries to be visited. Often, it is required that the samples be clearly marked "sample" and that their commercial value be in some way destroyed. Where this is not possible, the regular import duty will be levied. It may be that it will prove necessary to arrange for the periodic shipments of new samples, in order to keep the salesman supplied with fresh-looking articles. In some lines, it is customary abroad to allow the customer to keep a sample of the products ordered for comparison. This is quite common in chemical products and in the textile trade. Where this proves to be the custom, the problem of samples becomes more difficult, since provision must then be made for customers' samples as well as for salesman's samples.

As a general rule, the samples to be carried by the salesman should be kept to the minimum. His troubles at the various national customs stations will be increased by the size and quantity of the samples

carried. He must also face many municipal customs services. He may have no difficulty at the French frontier, but the officials at the Paris municipal customs, or Octroy, may cause him considerable annoyance, especially if he should carry goods similar to those manufactured in the "Metropolitan district" around Paris.

He will also discover that baggage is a real burden abroad. The elaborate and time-consuming checking system at the railway stations, the need for personal attention to baggage, both large and small, and the general absence of transfer services all contribute to making a large amount of baggage a source of expense, loss of time, and worry. These considerations are important, but should not be allowed to overshadow the necessity to take a fully-adequate supply of samples.

11. *Advertising materials.*—The salesman should also carry samples of display material that will be furnished, and a collection of advertisements that have appeared in American and foreign newspapers. From them the customer may judge the extent of the coöperation that he may expect from the factory. Where it is not possible to carry samples of the display material, on account of its bulk, it will be advisable to carry photos of such material, as displayed in some well-known American or foreign house. The added prestige of the name of the firm where the display was exhibited will also be a point in favor of the product.

The portfolio, containing samples of the newspaper and magazine advertising of the firm, is indispensable where the foreign dealer is asked to coöperate in a national and local advertising campaign. When foreign agents are appointed to represent the firm permanently, this coöperation is commonly found. The American firm supplies the copy and the cuts, as in domestic advertising campaigns, and the agent then inserts his own name and address. The cost of insertions in newspapers and magazines is then either shared by the factory and the agent, or the latter agrees to spend a given sum each year on such advertising. He is then expected to furnish proof that he has lived up to his agreement.

Where no definite agreement is made regarding advertising expenditures, and the matter of local advertising is left entirely in the hands of the customers, an agreement may nevertheless be made that no advertising shall be done that is not approved by the factory. The factory may agree to supply the copy and the cuts for all advertisements.

The advantages of thus keeping the advertising centralized in the hands of the manufacturers are obvious. A consistent and proved policy may thus be carried through, and the local dealers will secure the benefit of the services of experts in advertising, which they could not afford to secure for themselves.

There is, of course, a danger in such a centralized advertising policy. The copy prepared for the home market may not be suited at all for the foreign mar-

ket. The mistakes that are made in this manner are often amusing. One typical mistake resulting from such a policy may be mentioned.

About Christmas time, a large manufacturer of men's hosiery used a very attractive advertisement in the American magazines. The picture represented Santa Claus with his sled pulled by the traditional reindeers, riding on a cloud and dropping neatly-wrapped boxes of socks through the chimneys of the houses over which he passed. No explanation was necessary, only the name of the manufacturer and the brand of socks appeared.

This same advertisement appeared in the most exclusive magazines of Holland, where this manufacturer had built an excellent sales volume. But this advertisement carried no message at all for the Hollanders. The picture was utterly meaningless to them, and seemed so pointless as to be silly. What was the reason?

In the first place, Santa Claus is never associated with Christmas in Holland. Santa Claus day is celebrated on December 6, as a distinct feast, limited almost entirely to gifts to children. The advertisement in the Christmas issue came about two weeks late.

But, moreover, no one in Holland recognized the gentleman depicted. Santa Claus, in Holland, is dressed as a Roman Catholic bishop, and, although he travels over the roofs, like his American relative, he does so on a white horse, and he is always accom-

panied by a Moorish servant in the costume of the time of Philip II, who carries his bag of toys. That silly fat man, dressed like an Eskimo, meant nothing at all to the buyers of socks in Holland.

The salesman, again, may serve his firm in this respect by discussing the advertising policy and the specific advertisements with his customers, to ascertain in how far the American material needs to be modified to be adapted to the foreign market.

12. *Keeping in touch with the salesman.*—The salesman in the foreign field should be allowed a large degree of independence, but this should not be interpreted to mean that he should be permitted to feel that he has been forgotten. The factory should keep the salesman informed of all changes in plans that may affect his work, even indirectly. He should be notified in advance of any contemplated change in the product, or in any of the policies of the firm. He should be kept informed of any news relating to the customers he has visited, or is about to visit, and of any items of interest concerning the market as a whole, that may be received by the home office from other sources.

The importance of immediate answers to any communications received from the salesman cannot be overemphasized. Nothing is so discouraging for a man in the field as to wait in vain for a reply to questions that to him are of importance, however trivial they may seem to the home office.

A word of appreciation for orders received, and

regular information regarding the further history of the orders, all help to make the salesman feel that his work is as important to others as it is to him. Finally, it must be remembered how welcome every bit of news from home is to one who is fighting what is often a lonely and discouraging battle among people of different language and habits.

13. *The salesman should keep in touch with the office.*—Before leaving on his trip, the salesman should prepare a careful itinerary. No one can be expected to follow such a plan of travel without changes. Circumstances that cannot possibly be foreseen will always necessitate deviations from the plan, but is it equally true that, without a plan, much effort will be wasted.

Communications from the office will be dispatched, according to the itinerary, in care of banks, consular officers, or the firm's customers, taking into account the length of time required for letters to travel from the United States to their destination. It is always best to enclose in each letter a copy of the preceding letter, and to number all letters consecutively. The possibility of any letter being lost without this fact being discovered immediately is thereby eliminated.

The salesman should notify the office immediately of any change in his plans, so that there may never be any doubt as to where he can be reached at any time during his trip. By means of a private cable code, such communications may be sent at a minimum of expense.

14. *The regular sales reports.*—Reports sent regularly by the salesman to the office need not be dispatched more often than once a week. Mail communications are not sufficiently frequent to make it worth while to send letters at shorter intervals.

His reports should contain the type of information required of salesmen in the domestic field. The name and address of the customer visited, and the results of such interviews, will form the principal body of the reports. The foreign salesman should do more. He should add information concerning the firm, such as he may gather from conversation with its members, or from others whom he meets in the same city. The general character of the personnel of the firm, their banking connections, what other goods they carry, what their relative importance is, in short, all types of information that will enable the home office to form a clear picture of the character of the customers who have been added to their list, should appear in the weekly reports.

General information regarding crops, credit conditions, and the general economic factors that will affect business in the territory visited, should also be included in the letter. All this information does not need to take a great deal of time to write or collect, but it serves many useful ends.

In the first place, it forces the salesman to keep his eyes open, and to see more than mere sales volume. In the second place, it keeps the home office informed of everything that may affect present or future sales

policies. Finally it builds up in the home office a file of information that will be valuable to any new salesman preparing, in the future, to visit this same territory, as well as for the salesman himself when, after returning home, he is preparing for another trip.

15. *How the salesman carries funds.*—The most satisfactory method of carrying funds is the travelers' letter of credit. This is a draft drawn by the local bank upon a long list of correspondents in all parts of the world. Funds can thus be obtained in every important city. Of the total stated amount, the holder may draw as much as he needs from time to time. The paying bank endorses the amount of each withdrawal on the back of the document. When the draft is exhausted, the last paying bank returns the document to the issuing bank.

Identification, always a very difficult problem for a person traveling among strangers, is simplified by the requirement that no payment is made unless another document, usually bearing a picture and the signature of the legitimate holder, is produced at the same time by the holder. Sometimes a passport is declared to be acceptable for this purpose.

There is only one objection to the letter of credit. It can be turned into cash only at the large cities, and then only during stated hours, and on business days. A period of holidays, or a long sojourn away from the principal cities may thus prove embarrassing. In order to be certain that the traveler will not

find himself stranded, it is a good policy to carry a moderate sum in travelers' checks in addition to the letter of credit.

It is well to keep this amount small, for these checks are more expensive than the letter of credit. Moreover, they require that the amount carried be actually paid in cash at the time the checks are issued. The letter of credit, on the other hand, may be secured without such a costly investment. The amount taken up by the salesman as needed is then charged to the account of the exporter only as the foreign drafts issued to reimburse the paying bank are received by the issuing bank.

REVIEW

State the reasons why a foreign salesman should have a thorough knowledge of the goods he is selling.

Enumerate the functions, other than selling, that a foreign salesman should perform.

Give a description of the way the field may be prepared for the salesman.

List the advantages and the drawbacks of a centralized advertising policy.

CHAPTER XVI

MAKING AN EXPORT SHIPMENT

1. *Necessity for following instructions.*—When a certain method of packing is indicated, or a certain route over which the shipment is to be forwarded, the instruction should be followed without question. Failure to do so may result in refusal of the shipment, or unexpected expenses.

2. *Packing and import duties.*—The instructions received from the foreign buyers may be based upon years of sad experience. This is especially true in regard to packing. The consignee knows, for example, what methods of packing will assure the most favorable treatment by the customs officials. It is better to defer to this knowledge.

In many cases, not more than one kind of an article should be packed in one container. This method allows the less valuable articles to obtain the benefit of lower import duties. In other cases, it pays to dismantle the article, if in parts, and ship the parts separately. Where the duty is levied on weight, it is necessary to study the regulations in respect to methods to be followed in determining the net and gross weights, and pack the goods with these considerations in mind.

The weight and value of the container may influence the duty to be paid. For example, the rules prevailing in Chile are:

> By "ordinary receptacles" are to be understood earthenware or glass pots, bottles or flasks, iron, zinc, tin, copper or lead drums, wooden cases, cardboard or tin plate boxes, and any other containers of indispensable use. Receptacles not usually employed for the goods they contain and having a separate value or use shall be considered as dutiable merchandise and appraised separately.

3. *Packing and transportation.*—As shipments for export are subjected to rough handling, the packing should be done securely. Only new and strong boxes should be used, and screws rather than nails. The boxes should be protected by metal straps or wires in order to prevent pilfering. Many steamship companies refuse shipments of small articles such as shoes, cigars, and textiles, unless so protected. In order to protect the shipment against moisture, it is desirable to use waterproof wrappings. Sometimes conditions may call for a watertight and airtight box. Such extraordinary outlays are frequently charged to the foreign buyer. All metal parts of machinery should be covered with vaseline or grease, and then wrapped in oiled paper.

It is a good rule to make the weight and size of boxes as small as is consistent with strength and convenience. Inland transportation is poor in some parts

of South America, and boxes sent to these places should not weigh more than 100 pounds each, two of them making a well-balanced load for a pack-animal. In most cases, however, size and weight are not of prime importance, though it is well to limit the weight to about 250 pounds and the size to a cubic yard. Several small boxes are sometimes crated together for ocean transportation and the shipment is broken up in small lots on arrival, for inland transportation.

4. *Marking boxes.*—Old boxes should not be used, such as have been weakened by handling and unpacking and bear old trade-marks and addresses. Neither should the contents of the box be marked on the outside. That is not only unnecessary, but is an invitation to pilfer.

The instructions in regard to marking received from the foreign buyer cannot be too closely followed. It is important to number consecutively all cases making up a shipment. The numbers are placed along with other identification marks on the invoice, and aid in discovering shortages, tracing lost cases, and forwarding or assembling machinery. If a shipment is not made all at one time, but in two or three lots following each other on different steamers, it is best not to number each lot separately. If the total shipment contains two or three groups of cases with the same numbers, confusion is almost certain to occur. Some countries require the use of stencils in

marking. In many of the Latin-American countries, gross and net weights must be indicated on all cases, expressed in kilograms.

Chile requires the use of a stencil in marking every package, and the placing of a shipping number on each package, to correspond with the number appearing in the consular invoices and other shipping documents. The gross weight in kilos must be indicated on each package, and also on the bills of lading. Japan, on the other hand, has no regulations on marking and weights. Haiti requires that the net weight, in pounds, and the name or initials of the consignee, be marked on the package. The regulations of each country should be studied and followed.

The various steamship lines have their own regulations regarding packing and marking, as for example: "Shipments packed in bags or sacks must not exceed 200 pounds gross weight." "Boots, shoes, jewelry, guns, revolvers, cigars, silverware, and valuables of any description must be packed in iron-strapped and sealed cases, and facsimile of seal must appear on the bills of lading and receipts." "Arrangements must be made in advance for shipments measuring more than 30 feet in length or weighing more then 4,000 pounds (without regard to length)."

5. *Invoicing the shipment.*—The invoice should contain full descriptions of the goods, and give the number of boxes, method of packing, number of articles in each container, marks on the boxes, and weights and dimension of the cases. The invoice should also

state the price per unit of measurement, the total price for each group of articles, and the total price of the entire shipment, including discounts and additional outlays, such as freight prepaid, insurance, consular fees, and other extras. It should be clearly stated whether the prices, are f. o. b., c. i. f., or calculated on some other basis.

The foreign invoice is almost always signed. In many countries the signature is necessary to give it legal force. It is customary to add at the bottom "e. & o. e." (errors and omissions excepted). But this is an empty form; it does not protect the shipper. Foreign invoices should always be numbered, and the cable code in use in the office should be indicated.

Some markets require great detail in the invoices. In Australia, it is necessary to give the cost of packing, the freight charge from interior points to seaport, and the actual cost at the factory, no matter whether goods are sold f. o. b. or c. i. f. Similar provisions are found in other countries. Sometimes the extra charges, such as cartage, insurance and cablegrams are brought together on a separate "statement of charges" which bears its own number and also the number of the invoice. On this statement, the total of these charges is accumulated and added to the amount of the invoice, giving the grand total. This statement is signed by a responsible member of the firm. Such a statement of charges must accompany the invoice and the draft to the bank.

It is sometimes necessary, or desirable, to send

other documents with the invoice. Some of these are: A list of cases, their contents, and their measurements. This information may be necessary to facilitate customs inspection. Often, the customs inspectors will not examine an entire shipment, but will select only one or two cases. If the content of these is found to correspond with the statement of the importer, his statement is accepted with regard to the remainder.

If goods are to be stored by the purchaser, to be withdrawn as needed, a carefully-prepared list of the contents of each box is indispensable. When goods are sold on analysis, the certificates of chemists or experts must accompany the invoice, as evidence that the goods shipped were as represented in the invoice.

Invoices and accompanying documents are usually made out in triplicate. One copy goes to the customer, one to the bank with the draft, and one into the shipper's file.

6. *Engaging freight room.*—After the shipment has been checked against the invoice, the next step is to engage freight room. It is customary to do this as soon as it is known when freight will be dispatched, and in what quantity. Frequently, the exporter will make certain of the freight space and the rate before he makes a sale. Then he knows how much the goods must bring c. i. f., and is able to guarantee delivery at a definite date.

In asking for freight rates, it is necessary to be

specific. The size of the box or case, its weight, contents, and value must all be indicated. When the rate has been received, the shipper must act promptly, usually by telegraph, or lose his option. After acceptance, the freight space is formally reserved at the rate quoted. Goods must then be brought alongside for loading, otherwise the "dead space" will be charged for.

7. *The shipping permit.*—After the steamship company has been notified of the acceptance of the option, it sends the shipper a "shipping permit." The permit must be presented before the goods can be delivered at the wharf. In case of small shipments, the permit is given to the driver of the delivery truck.

8. *Forwarders.*—Where a freight forwarder is employed, he should be notified when a shipment has been sent in his care. The blanks used for his purpose are in the form of a letter, giving him notice that certain goods described in detail, have been dispatched. Careful instructions must be given on the following points: The name of consignor, consignee, and person to be notified upon arrival of the vessel; destination and value of shipment, amount for which insurance must be taken, to whom the premium must be charged and to whom the certificate must be sent. Finally, it is necessary to indicate to whom the various incidental expenses are to be charged, and the number of copies of the final bill of lading to be sent to the consignee and to the consignor.

9. *Shipper's export declaration.*—Many steam-

ship lines will not issue a shipping permit until the shipper has made out a shipper's export declaration, or will refuse to issue bills of lading, or permits, until the declaration is in the possession of the steamship company. The reason for this is that the government holds the steamship companies liable for each shipment appearing on the manifest, for which no export declaration can be produced. In the freight contracts there usually is a clause giving the company a lien on the goods actually loaded on the vessel, for which the necessary documents were not provided.

The regulations require the shipper himself to fill out the export declaration, in part. If the exporter is located inland, he may appoint an agent at the port of exit, and notify the collector of customs to that effect, or by indorsement on the declaration itself. Where a freight forwarder is employed, the simplest procedure is to authorize him to act in the capacity of agent for customs services. If no freight forwarder is employed, a "customs broker" may be engaged for that purpose. Many firms located in the large harbor cities combine a number of functions and act as functional middlemen and agents.

The form of the shipper's export declaration is given on the following pages.

U. S. Treasury Department.
Customs Cat. No. 7525.
T. D. 35969.
C. D., Nov. 20—15.
ORIGINAL—(For United States customs use only.)

SHIPPER'S EXPORT DECLARATION

OF MERCHANDISE SHIPPED TO FOREIGN COUNTRIES OR NONCONTIGUOUS TERRITORIES OF THE UNITED STATES

Clearance will not be granted until shipper's declaration has been filed with the collector of customs. U. S. Government export statistics are compiled from this declaration and it must be correct.

Merchandise shipped by .....
(Name of Shipper.)

Address: No.....Street.....City.....State.....

From ..... Via.....
(Place of original shipment.) (Carrier from interior point, if any.)

For shipment on the.....
(Name of carrier. If vessel, give name, motive power, and flag, if known.)

From ..... To port of.....
(U. S. customs port of exportation.) (Foreign port or place.)

County of .....
(Final destination of goods.)

SHIPPER'S EXPORT DECLARATION

SHIPPER'S EXPORT DECLARATION *(Continued)*

Marks and numbers.	Number and kind of packages.	Articles Describe the articles fully, as canned pork, printed cotton cloth, printing presses, apples, etc. General terms such as meats, dry goods, machinery, fruits, etc., will not be accepted. (Read instructions on back.)	Quantity State number of pounds, tons, gallons, yards, etc.	Value at time and place of shipment	
				U. S. products, including foreign goods altered or remanufactured in the United States.	Foreign products in same condition as imported.

This form may be delivered to carrier in sealed envelope.

Waybill or manifest No..... Date..... Declaration C. H. No.....
(May be filled in by carrier if desired.)

I, the undersigned, solemnly and truly declare that the above statement is a complete, just, and true account of all merchandise shipped by the party named on board the vessel, car or vehicle, and to the place or county named above, and that the description and quality of each article is truly stated, and that the values thereof are the actual costs or values at the time and place of shipment for exportation.

Sworn and subscribed to before me

at.....

on.....

.....

Signature:

.....
(Actual shipper, owner, or consignor.)

This oath to be taken before notary, collector of customs, or officer authorized to administer oaths. This declaration must be signed, but oath need not be taken on exportations to Canada or Mexico by car, vehicle, or ferry, or on shipment by vessel to any country, if total value of items does not exceed $100.

Preparation of Export Declaration
(Read Carefully.)

1. The Shipper Must Prepare This Export Declaration and subscribe to the oath before a customs officer, notary, or other authorized officer. The declaration must be signed by the shipper, but the oath may be omitted on any shipment for exportation by vessel if the total value of the items does not exceed $100 and on shipments regardless of value to Canada or Mexico by car, vehicle, or ferry. If the declaration is executed by an agent for the shipper the authority must be in writing on this declaration or other document filed with the Collector. The values and names of shippers may be omitted from the duplicate, but must always appear on the original. The original is for the use of customs officers and will be treated as confidential and information not disclosed without written authority of the shipper or his agent. Export statistics are compiled from these declarations and all data required on the prescribed form must be furnished.

2. Domestic Articles Exported.—The value of all articles grown, produced, or manufactured in whole or part in the United States must be stated in the column of "U. S. Products."

3. Foreign Articles Exported.—The value of articles of foreign origin shipped out of the United States in the same condition as imported must be stated in the column of "Foreign Products." If foreign articles are subjected to any process of manufacture or alteration in the United States they become United States products and must be reported as such. Thus: Imported raw sugar refined in the United States should be reported as a domestic product.

4. The Value of Articles to be stated is the selling or invoice price or the actual cost or true market value at the time and place of shipment for exportation.

5. Description of Articles Exported must be accurate and complete. General terms such as dry goods, groceries, meats, machinery, millinery, etc., will not be accepted. In the case of cheese the declaration must state whether filled or unfilled, oleomargarine, whether colored or uncolored, butter, whether pure, adulterated, or renovated.

6. The Kinds of Packages as boxes, barrels, etc., and the net weight exclusive of outer coverings, must be specified.

7. The Total Quantity of each article expressed in the usual measure of pounds, yards, gallons, etc., must be stated. Domestic spirits exported must be stated in gallons of 50 per cent alcoholic strength.

8. The Country of Final Destination of Goods—that is, the country to which goods are sold—must be shown. Special care should be exercised to state the final destination of goods shipped through Canada to Europe, and of goods to be transhipped in the United Kingdom, the Netherlands, Germany and France en route to other countries.

9. Inspection Certificates.—Process butter or butter adulterated or renovated must be accompanied by certificate of purity issued by the United States inspector of dairy products. Certificate of inspection must be presented to the Collector for meat and meat food products exported when required by the regulations of the Department of Agriculture.

10. Export Schedule B may be obtained free of charge from the Bureau of Foreign and Domestic Commerce, Department of Commerce, Washington, D. C., and will be of much assistance to exporters.

Shipper's Export Declaration (Reverse Side)

The declarations must be made in triplicate. One copy, the "original," is filed with the custom house, where the information will be treated as confidential. The second, the "extract," is for the use of the carrier, and need not contain the value of the shipment, or the name of the consignee. These declarations aid the government in compiling export statistics. The shipper keeps the third copy for reference.

10. *Shipments from interior points.*—When shipments are sent from interior points to a foreign port, the export declaration is to be delivered to the carrier when a through bill of lading is issued. In case of exportation to Canada and Mexico by railroad, the railroad company must deliver to the customs officials a copy of the waybill and the shippers' export declaration.

If, for any reason, export declarations are delayed, immediate clearance may be granted to vessels and immediate exportation by railroad allowed. The master of the vessel must then file an application for immediate clearance, and execute a bond to produce the complete manifest on the next business day after the departure of the vessel, with all shippers' export declarations. In cases where such export declarations cannot be produced, a *pro forma* declaration must be made out by the master of the vessel. Similar regulations apply to shipments by rail to Mexico or Canada.

11. *Special regulations.*—No shipper's export declaration is required for merchandise withdrawn from

bonded warehouses, or shipped in bond. In this case, the inspector at the port of exit will issue a "permit to lade." This permit must be attached to the manifest when the master requests clearance for his vessel.

When a shipment is divided, the amount shipped on each vessel must be endorsed on the declaration. When exporting process butter, or adulterated butter, a certificate of purity must be secured from the United States inspector of dairy products. No meat or meat products can be exported unless a certificate of inspection from the Department of Agriculture is presented to the collector of the port.

12. *Drawbacks.*—In order to secure a refund of duties upon reëxportation of article for which import duties have been paid, it is necessary to file a claim with the collector of customs at the port of exit, before the goods are placed on board the vessel. The manufacturer need not have been the original importer of the goods.

It is best to employ a drawback agent to attend to the technical details. Where such an agent is employed, the manufacturer mails him a notification of the shipment made, and fills out a "notice of intent" which accompanies the goods and is filed with the collector of customs. The notice of intent contains the marks and numbers of the packages, a description of the merchandise, and a statement of the materials, or parts, on which drawbacks are claimed. The claim is then investigated by agents of the United States Treasury Department. In order to facilitate inspec-

tion, manufacturers are required to keep special records open to the agents.

13. *Certificates of origin.*—After all the documents that make exportation from the United States possible have been procured, it is necessary to provide the documents required by the customs regulations of the country of destination.

One of those most commonly required is the "certificate of origin." This is a document certifying that the goods have been produced in the United States. It is needed in order that the goods may take advantage of the lowest rates to which they may be entitled by tariff treaty. The form is simple: The name of the consignor, the name of the consignee, and a description of the shipment form the body of the document to which oath is made.

The certificate must receive the visé of a consul of the country of destination. The fees that are charged for this service differ in the consulates of the various nations.

14. *Consular invoices.*—It is generally necessary to prepare also a "consular invoice" covering the details of a commercial invoice, and sometimes additional data. It is usually intended to facilitate the work of the foreign customs officials.

These documents should be filled out with care. If special instructions have been received from the foreign buyer, they should be followed to the letter, no matter how illogical they may seem.

The forms for consular invoices are obtained, like

other consular documents, from the consuls concerned. They must be filled out in the language indicated. In most cases the language of the country of destination is required, but not always. Brazil permits English as well as Portuguese; Cuba, English and Spanish; Haiti, English and French; and Portugal, English and Portuguese. The consignee at times indicates his preference. Translators are easily found. Some consulates translate documents, but their charges are usually high.

The number of invoices required differs. France requires one; Nicaragua, six; Guatemala, five; and Portugal, three.

The consular fees for invoices are sometimes determined by the value of the merchandise. Peru charges two per cent of the value, Mexico three per cent, Cuba one per cent, and Chile about three-fourths of one per cent. Such "fees" are merely disguised import duties. Mexico requires four consular invoices made out in English or Spanish, for which three per cent of the value of the invoice is charged. As a rule, however, the value of the shipment is not considered, but a uniform fee, irrespective of the value of the shipment, is charged.

Shipments by mail may or may not require consular invoices. In a few cases, as with Santo Domingo, Nicaragua, Panama and Costa Rica, the consignee pays the fee at the port of entry.

15. *Certification of bills of lading.*—Some other countries require that one or more copies of the bill

of lading be certified by the consul. Uruguay, Bolivia, Chile, Costa Rica, Cuba, Peru, Honduras and San Salvador require that all bills of lading shall be certified. In other countries, the number is definitely stated: In Paraguay one, in Haiti six, and in Panama four. The certification is, of course, necessary only for "negotiable" bills of lading.

16. *Non-dumping certificates.*—These are required in Canada, New Zealand and South Africa. The forms of the declaration differ, but their purpose is the same. The exporter declares that his goods are sold at a price not lower than the home market price, and are not subject to unusual discounts. In case the value of the goods is less than the home market price, or in case unusual discounts are allowed, a statement to that effect must be made, showing the value for home consumption and the usual discount allowed.

17. *The railway bill of lading.*—In shipping by rail from inland points it is essential to mark the railway bills of lading "for export" or "lighterage free." Goods designated in this way, provided they are shipped in carload lots are not unusually heavy, are entitled to free delivery alongside steamers. This may mean a great saving in cartage and lighterage fees, amounting to almost as much as the ocean freight.

Such goods are also entitled to free storage, for about ten days usually, at the port of exit. Though these privileges apply only to carload lots, the car

may be broken up in three lighterages within the free lighterage district. To secure these privileges, and avoid delay, all inland transportation charges should have been prepaid and the proper documents promptly forwarded to the agents at the port of exit.

Where less than carload lots are shipped, the cartage and ferrying must be looked after by the agent of the exporter, preferably a freight forwarder.

18. *Through bills of lading.*—Goods may be dispatched from inland points by rail on "through bills of lading," which may route even to the final inland destination. The railroad company engages the ocean freight room and the shipper is relieved of all detail. Not infrequently, however, the freight charges on such shipments will prove higher than the shipper could have obtained himself. Consequently, the method, though simple, cannot be recommended until the railroads develop greater economy and efficiency in the service.

The bills of lading issued by steamship companies from the port of exit to the foreign inland point are also called "through bills of lading." It is not usually possible for carriers in this country to quote favorable rates on such through shipments. The foreign buyer generally prefers to look after the transportation inland himself.

"Steamship through bills of lading" for transhipment at a foreign port are issued by some companies. The large "omnibus" companies, like the German, with a network of lines covering the entire

world, were formerly in the best position to offer this service. Where the carrier is not able or willing to issue such transhipment bills of lading, the shipper can obtain this service through a freight forwarder.

19. *Delivering goods to carrier.*—After all necessary documents have been prepared, and the invoices checked with the goods, the latter may then be brought to the pier or put alongside the vessel by a lighter.

When the goods are extremely heavy, the shipper must make the necessary arrangements to have the goods hoisted on board. A derrick or lighterage company may be engaged for this purpose, or special arrangements may be made with the carrier to perform the service at a special rate. The freight rates quoted by steamship companies are applicable only to cases of less than two tons. At transhipment points, as well as at the port of destination, similar extra charges may be necessary. Steamship companies are usually able to quote freight rates including these extra payments.

20. *Dock receipt.*—The goods are delivered to the carrier's freight clerk, who, after seeing the shipping permit, allows them to be placed either on board or on the pier. When goods are shipped "in bond" they should not be delivered before the steamer is prepared to receive them.

After the goods have been delivered, the carrier's clerk issues a receipt. The shipper fills out the receipt, the carrier's clerk checks it with the shipment,

and, upon finding it correct, signs it. Care should be exercised to record in the receipt all marks and numbers on the cases, to describe the contents of the cases, and to have the receipt made out in the name of the person to whom the final bill of lading will be issued. Partial deliveries against these receipts are sometimes written on the back, with the date and time of delivery, and special receipts are issued for separate deliveries. The final dock receipt is issued when the delivery is complete.

21. *Goods on the dock.*—The dock receipt usually states that the goods were in "apparent good order" when delivered, and the carrier assumes no responsibility for them while on the dock. The insurance policy taken out against the shipment should, therefore, cover not only the risk of ocean transportation, but also the danger of fire or damage while the goods are on the dock. For this a special arrangement is necessary, as the ordinary marine policy does not cover goods awaiting shipment, nor while being hoisted into the vessel.

22. *The bill of lading.*—The shipper must now make out the bills of lading upon forms supplied by the carrier, and present them for signature. The details of the bill of lading are discussed in another chapter of this Text.

The accompanying reproduction of a typical bill of lading should be carefully studied by the reader. The carrier is liable, as will appear from the exceptions noted, only when the vessel is unseaworthy,

either as to hull or crew, and when negligence in stowing or loading can be proved. The number of copies that must be prepared is determined by the number required by the consul, the shipper and the carrier.

In the case of shipment to Argentina, for example, three copies are required to be certified by the consul. These certified copies are signed by the carrier and indorsed by the shipper, and become negotiable bills of lading. In all, probably eight copies will have been made out. The three negotiable copies will be attached to the draft offered to the bank for collection. The five non-negotiable copies are disposed of as follows: Two to the carrier, one going to the captain, the other being filed in the steamship office; one to the consul; one retained by the shipper; and one sent to the consignee.

The steamship company will not sign any bills of lading unless the dock receipt covering the shipment is returned, and unless all requirements in regard to certificates of origin, export declarations, consular invoices or export license have been complied with, and a customhouse clearance is presented. Freight is, as a rule, paid in advance, though some companies do not require it on goods not subject to rapid deterioration.

The insurance company may now be notified of the shipment and a certificate will be issued. This certificate may be issued under an "open policy" of the foreign importer, or of the exporter, or each ship-

ment may be insured under a separate policy. The limits of the present Text preclude an extensive discussion of marine insurance.

23. *The advice of shipment.*—A non-negotiable copy of the bill of lading and the original of the invoice are sent to the foreign consignee, with a letter called the "shipping advice" or "advice of shipment," giving the details of shipment, including name of steamer, probable date of arrival, manner of insurance, and the name of the claim agent in the port of arrival, so that the consignee may know how to proceed should the goods arrive in a damaged condition.

24. *Collecting the draft.*—All that remains to be done is to attend to the collection of the draft that has been drawn against the consignee. This draft, and one or two copies, called "the second," "the third," are sent to the bank for collection. This may be the shipper's local bank at an inland point, or a bank in the foreign country. To the draft are fastened the "documents" by which the ownership of the goods is transferred, and those that make entry into the country of destination possible. Usually the documents will include all the negotiable bills of lading, one copy of the commercial invoice, one or more copies of the consular invoice, one copy of the marine insurance policy, and one copy of the certificate of origin. This is called a "full set."

It is customary to write a letter accompanying the draft and documents, in which the bank is instructed

how collection is to be made, and under what conditions the documents may be placed in the hands of the consignee.

REVIEW

Describe, step by step, the making of an export shipment.

Explain how packing is influenced by transportation conditions and customs regulations.

Make up a list of all documents that must be prepared to satisfy foreign customs requirements.

Explain the use made of the various copies, negotiable and non-negotiable, of the bill of lading.

CHAPTER XVII

TRANSPORTATION SERVICES

1. *Importance of ocean transportation.*—In the United States and Canada, foreign trade is usually considered synonymous with over-sea trade. This is quite natural. The problems of foreign trade are, to a large extent problems of distance, or communication. All these problems are emphasized when oceans are crossed. Trade with Mexico, and between the United States and Canada, is, therefore, hardly deemed worthy of the name foreign trade. It is the same on the Continent of Europe. Trade with countries across the seas, over-sea trade, is there also looked upon as the real foreign trade.

Since the trade with Europe, Asia and South America far outweighs our trade with Canada and Mexico, a consideration of foreign trade problems would not be complete without an examination of the principal features of ocean transportation.

2. *Ocean freight services.*—Ocean carriers may be classified as liners, tramps, and private carriers. The liner makes regular voyages over definite routes, usually on schedule time. The tramp is an irregular traveler, going wherever it pays to go, wherever it is known that cargo space is in demand, and wherever

the destination of the cargo makes it necessary to go.

The private carrier is owned and operated by an industrial or mercantile company for its own work, either principally or exclusively. Examples are the Standard Oil Company's tankers and the United Fruit Company's steamers.

3. *The line service.*—At one time, liners were almost wholly mail and passenger steamers. There is at present an increasing number of strictly cargo liners. These liners specialize in the carrying of manufactured products. These products, being sold under contracts guaranteeing delivery at a certain definite date, will be sent by preference on carriers that run on schedule. Furthermore, none but manufactured goods can afford to use the expensive liner service, except such high-value raw materials as raw silk and precious metals. The more expensive the goods, the more important a rôle does the element of time play. Though the liner may be more expensive, the increase in speed, and the resulting saving in interest on high-priced goods in transit, more than offset the increased transportation charges.

The tramps are the real freight carriers. Most of the low-grade or bulk freight is shipped in them. They do not usually have the speed of the liner, nor are they as large. It has been estimated, however, that over two-thirds of all the shipping space in existence consists of tramps.

The economies in the operation of tramp steamers, as compared with liners, are obvious. A tramp need

not leave until a paying cargo has been secured, and no time is lost waiting for the sailing date, once the ship is loaded. If such cargo cannot be obtained in one port, the tramp may go where it can be secured. The problem of return cargo is still further simplified, because such vessels are seldom specialized, and can carry anything that is offered.

The large ratio between net and gross tonnage, in other words, the larger freight-carrying space, combined with low operating cost, makes the tramp the most economical carrier.

4. *Berth traffic.*—Before the cable and telegraph made it possible for vessels to be directed from a central office to the ports where freight is waiting tonnage, the only way in which a master could fill his ship, was by "putting her on berth." This is still done, to some extent, by shipowners and masters. The "good ship" is advertised to sail "on or about" a certain date, for a generally definite destination, and all those who have freight for that port, or way ports, may make use of her. Sometimes this method is used when a fairly profitable cargo has been secured for only part of the ship's capacity.

5. *The charter party.*—A "charter party"—*charta partita*—is a legal instrument by which a shipowner leases a ship, or a part of a ship, for a given journey (trip charter), or for a set period of time (time charter). The document is made out in duplicate, each party to the transaction receiving a copy.

Charter parties differ considerably in form accord-

ing to the trade and customs of the port. In order to bring a certain uniformity in the provisions, various shipowners' associations have agreed upon the forms to be used. The Shipowners' Association of the Pacific Coast has adopted a number of standard charters. The Steam Schooner Charter Party and the Pacific Coast Lumber Charter are examples. Such uniform charters are also found abroad. The Uniform River Plate Charter Party is an example of such a standardized charter applying to the trade between Liverpool and the River Plate.

A charter may be a "trip charter" or a "time charter." A trip charter is a contract for a certain voyage, and may cover either a single or a return trip. Under a trip charter the payment may be a lump sum. More usually, it may be made at a certain rate per ton of cargo, or, in the case of wheat, per bushel of wheat. Usually the shipowner pays all expenses of operation, including port charges.

In the case of a time charter, the shipper pays on the basis of the ship's tonnage at a certain rate per month, and, in addition, he usually pays for the fuel and the port charges. The owner pays the wages of the crew and keeps the ship in good repair.

Time charters present the disadvantage to the shipper that each day's delay en route, or in the harbor of departure and of destination, means an increase in expense. On the other hand, the shipowner protects himself against excessive delays, when operating under a trip charter, by limiting the number of free

"lay days." Should this number of days be exceeded in either port, then the owner has a claim to demurrage at a stated rate per day. Sometimes this demurrage is calculated at a fixed rate per registered ton, and at other times, as in the uniform River Plate Charter, at the rate of "one hundred pounds per day for detention of ship if caused by consignee's not taking delivery as fast as steamer can discharge."

The number of lay days allowed differs according to the merchandise carried, and the character of the trip. Each trade has its customs. In many cases the shipper receives "dispatch money" when the ship is loaded or unloaded in less than a specified period of time.

6. *The destination of the vessel.*—In a trip charter it is not always necessary to indicate the port of destination of the cargo. Frequently, vessels are chartered for "one safe port on the Continent between Havre and Hamburg, both inclusive," or "French Atlantic range," or "U. K. (United Kingdom) range," or "U. K. H. H. (United Kingdom, Havre, Hamburg) range," no definite port being indicated. The vessel starts on its journey and, in the old days, "calls for orders" usually at Cork, on the south coast of Ireland. The general use of the wireless has made it possible to communicate with vessels far off the shore, and to direct their movements. Ships from Argentina or Cape Town usually "call for orders" at the Cape Verde Islands, or the Azores, where they can also coal.

The purchaser of the cargo decides where the ship shall go. The cargo of cotton, wheat, or some other staple product, is sold while en route, on the exchanges of Liverpool, Antwerp, Rotterdam, or Hamburg, and then directed to the harbor most advantageously located for the purposes of the buyer.

7. *The bill of lading.*—The bill of lading (B/L) is a receipt for the goods received on board a vessel, and contains the terms of the contract of carriage. Usually it is signed by the master of the vessel, acting as agent for the owners. A bill of lading is sometimes used in connection with a charter party, but as a rule is found only where a common carrier is used.

The document is of great importance because it conveys title to the goods shipped. Several copies, never less than three, are drawn up. Some of these are "negotiable," others are "non-negotiable."

The negotiable copies, of which, as a rule, two are signed, are the only instruments by means of which the ownership of the goods can be transferred. They are the copies that must be sent to the foreign customer, and that must be attached to the "documentary bills" discounted at the bank.

The banks will demand "a full set," although one negotiable bill is sufficient to obtain possession of the goods. On each negotiable copy the number of negotiable copies in existence is, therefore, indicated.

The non-negotiable copies of bills of lading do not give title to the goods, but are used for purposes of record. One copy is given to the captain, who uses

it to make out his "manifest." Another copy may be kept at the office of the exporting firm, while yet another may be forwarded to the foreign customer as a notice that the shipment has actually taken place. Sometimes consuls require copies of bills of lading for their files.

Many bills of lading are made out "to order," to which may be added a clause, "Notify Enrico Veldez," or whatever is the name of the consignee. Venezuela, Colombia and Costa Rica do not allow "to order" shipments.

Each carrier issues its own bill of lading, but all bills of lading are much alike in appearance. The major part of the bill is made up of "exceptions," by means of which any liability is disclaimed in case of disaster or other accidents resulting from causes other than "unseaworthiness."

The "clean" bill of lading bears no additional exceptions other than those printed. When a shipment arrives in bad condition at the steamer's wharf, the company will either refuse to handle it at all, or else will issue a "foul" bill, which is a bill bearing a marginal note stating that the goods were received in damaged condition. Banks naturally do not look with favor upon such bills as collateral.

"Minimum" bills of lading are the lowest sum for which a steamship company will issue a bill of lading. Usually this amount is $5. Small parcels may sometimes be shipped with "parcel receipts" issued against them. Samples are frequently handled that way.

Many steamship lines do not handle parcels. These must then be sent by parcel post, express company, or freight forwarder.

8. *The through bill of lading.*—When shipping goods from inland points, advantage may be taken of the special facilities offered by the railroads to exporters. Goods traveling under a railroad bill of lading marked "for export," are granted free storage for a much longer period than goods directed to local firms in the port of exportation. In New York City, where no coördination between rail and ocean transportation terminals exists, it is, moreover, important to know that goods intended for export, when shipped in carload lots, are lightered free alongside by the railroad company.

Where the railroad company has undertaken to carry the goods only to the port of exportation, the shipper will have to make his own arrangements with the steamship company for freight space. It will also be necessary to appoint some one to receive the goods, and to see to it that they are delivered at the steamship company's docks, and that a proper ocean bill of lading is secured.

Most railroad companies will issue "through bills of lading" from interior points to foreign ports, or even inland points. When the goods are shipped under such a through bill of lading, the railroad company engages steamer space and attends to all the details of carting, loading and shipping.

As a rule, the foreign buyer will not expect the

exporter to make arrangements for the freight beyond the port of importation. Where this is required, it may prove more advantageous to make the necessary arrangements through a freight forwarder rather than through the railroad company.

9. *Transhipment.*—Direct routing of ocean freight is not always the most economical method, nor is it always possible. Even where direct connections exist, it may be that sailings are so infrequent and roundabout that it is speedier, and frequently less expensive, to ship the goods to some European port for transhipment.

The Australian and South American services from England and the Continent compete with the direct lines from the United States. Many of the Baltic ports and the ports of the Mediterranean are more easily reached by transhipment than by direct connections.

The rates for these services are usually competitive. The real competition is felt in the service rendered. As a rule, transhipments should be avoided when possible. They may result in delay in the port of reshipment and they increase the risk of breakage and damage in handling.

Where transhipment takes place in a foreign port, the risk is borne by the shipper, except in the case of gross negligence. This is covered by a clause in the ocean bill of lading.

Not infrequently, the steamship company receiving the freight at the port of exportation is unable to

quote a definite rate to cover all transhipment charges. This is notably the case with shipments of heavy machinery. It will usually be found that a good firm of freight forwarders can be of service here.

10. *Ocean freight rates.*—In measuring freight space, two different considerations play a part, the weight and the volume. Both share in determining the cost of the service rendered by the carrier, and consequently the price that must be charged for that service.

In loading a ship, two things must be reckoned with: The cubic capacity of the ship and the weight which the ship can safely carry. The most economical cargo is that which completely fills the available space when the ship is down to the highest mark consistent with safety and operating efficiency. This implies an ideal relation between weight and bulk, which is not often afforded by one article. In the parlance of the sea, some goods "weigh more than they measure," while others "measure more than they weigh."

The shipowners have established a fixed ratio between the weight and the bulk of freight in the "measurement ton." This must not be confused with the "measurement ton" as applied to the vessel. The "measurement ton" as applied to cargo equals forty cubic feet. The measurement ton applied to ships means one hundred cubic feet. The "measurement ton," as a unit of measurement for cargo, is said to

be based upon the fact that forty cubic feet of wheat weigh about one long ton.

A prominent British company of marine surveyors at Shanghai has drawn up a table of weights and space measures for export cargo, that will guide prospective shippers in estimating the tonnage of their cargoes. However, when calculating for stowage in a vessel, about 10 per cent should be added for broken space, ventilation, and other factors. The table is shown below:

Table of Weights and Space Measures For Export Cargo

Cargo	Per ton weight	Per ton measurement (40 cu. ft.)
Almonds	15 bags	12 bags
Albumen	10 cases	7 cases
Antimony	11 cases	5½ cases
Beans	12 bags	8 bags
Bran	16.8 bags	10 bags
Bristles	15 cases	8 cases
Cotton	5 bales	3½ bales
China grass	7 bales	4 bales
Egg yolk	4½ casks	3 casks
Feathers	6 bales	2½ bales
Fish maws	6 cases	4 cases
Gall nuts	8 cases	5 cases
Goat skins	2½ bales	1½ bales
Peanuts (shelled)	13 bags	7 bags
Peanuts (in shell)	23¼ bags	6 bags
Hides (dry)	2 bales	1 bales
Hides (wet)	10 bales	8 bales
Horns	7 bales	4 bales
Sesame Seed	14 bags	9 bags
Rape seed	14 bags	9 bags
Wood oil	4½ casks	8 casks
Wool	5 bales	3½ bales

11. *The ship broker.*—With thousands of vessels traveling the seas and approaching ports, where, after unloading, they will be looking for a cargo, a dis-

tinct business has developed with the object of bringing shipper and carrier together. The ship broker, by means of cable and telegraph, is constantly informed of the movements of vessels and, for a commission or brokerage, provides vessels with cargo and shippers with transportation facilities.

More than 24,000 tramps are moved from one port to another every year through the agency of ship brokers. The ship brokerage business, like the marine insurance business, is centered in England, particularly in London. Rotterdam is also an important center, while Hamburg is regaining its former importance. The large proportion of British tonnage to the total tonnage of the world, the concentration of many raw products markets in England, and also the fact that the English coal furnishes a welcome return cargo, so that ships never need to leave in non-freight-paying ballast, are responsible for the leadership of Great Britain in this respect.

12. *The freight forwarder.*—The freight forwarder, or seaboard broker, combines many comparatively small shipments into one large shipment, and then contracts with a steamship company for its dispatch. Sometimes, especially for freight to destinations not reached by regular lines, the forwarder will charter a tramp and load it with a miscellaneous cargo. The shipper of moderate-size lots thus shares in the benefits of low rates and good service.

Frequently, forwarders are speculators in freight space. They contract ahead for a certain amount

of space when rates are low, trusting to their regular flow of cargo to fill the space thus contracted for. Goods are shipped under the name of the forwarder, and consigned to his agent in the port of destination. This agent breaks up the shipment and reships each lot to its inland destination. The agent acts also in the capacity of customs broker, and attends to all necessary details. Shippers who have little experience in making foreign shipments are thus relieved of all worries connected with the technical details of making a foreign shipment. Some forwarders will forward goods "freight collect," or even C. O. D., but this is not generally done. Others discount manufacturers' drafts on foreign customers, thereby acting as bankers. This is done on a much larger scale in Europe than in the United States. The forwarder usually does not actually "carry" the exporter himself, but rediscounts the draft with a bank.

The charges of forwarders are, as a rule, reasonable, considering the value of the services that they render. The freight forwarder proved his usefulness most strikingly during the World War. The constantly changing rates, and the unwillingness of steamship companies to reserve space, made personal representation at the ports necessary. Frequently, forwarders secured space for their clients by paying a slightly higher lighterage, and by having their cargo ready for loading alongside the vessel, instead of letting it lie for months on the docks waiting for space, as much other freight did at that time.

Most of the larger steamship lines operate freight forwarding departments that render substantially the same services as the independent freight forwarders. They will, through these departments, issue through bills of lading to interior points, and look after the interests of the shipper in all matters concerning customs requirements.

13. *Express companies.*—The express companies operating within the United States have also developed a foreign business. The most important one is the American Express Company. The domestic business of this concern has been placed in the hands of the American Railway Express. The American Express, the United States Express and the Wells Fargo Express companies have combined their foreign business under the name of the American Express Company.

Apart from the small-parcel service, which corresponds to the service with which all are familiar in the United States, the company also acts as freight forwarder and customs broker for larger shipments, and performs the services of a bank in the collecting of drafts and the transmitting of funds.

The express company issues a bill of lading, or a receipt, which gives a description of the goods, their value, the name of the shipper, and that of the consignee. Where a bill of lading is issued, as in the case of large parcels, three copies are usually made. One copy serves as the sender's receipt, the second copy is sent to the express company's agent abroad, and

the third copy is filed for record. The express company stands to the ocean carriers in the relation of a private shipper, having no blanket contracts with them.

REVIEW

Account for the fact that it is more expensive to use a "line" service than a tramp steamer.

Explain the differences existing between a "time" and "trip" charter.

Enumerate the functions of the freight forwarder.

State what is meant by "measurement freight."

Explain what is meant by a "through bill of lading."

CHAPTER XVIII

IMPORTING

1. *Foreign trade has a twofold aspect.*—Importing is a reversal of many of the processes of exporting. The principal problems of the importer arise in purchasing goods abroad and in marketing them in the domestic market. As far as this latter group of problems is concerned, there is not a great deal of difference between the position of the importer and a jobber or wholesaler in the domestic market. The importer is on the lookout for products that may find a sale in the United States. This trade has as much of interest, and is as capable of future development, as export trade. The buying power of the United States is constantly on the increase. Though the protective tariff acts in one regard as a check on imports, yet in another, by exerting an effect on the domestic price-level, it may also encourage them.

Much of our import trade is in the hands of foreigners. Japanese, Chinese, Greeks and Armenians play an important part in introducing the products of their home lands, on account of their intimate knowledge of those markets.

2. *Articles of import.*—The list of imports into the United States is quite as formidable as the list of ex-

ports. A condensed statement of the imports for the fiscal years 1913–1926, and the calendar year 1927, invoiced from the various regions is shown in the accompanying table below.

It is interesting to note the fluctuations that have taken place in the per capita amounts of imports. The per capita amounts of imports and exports at stated intervals are given in the table on page 332. The figures prior to 1820 are not reliable because they also cover goods imported for reëxportation.

The general character of our imports trade has changed fundamentally. The importation of crude materials has increased rapidly, while the importation of finished articles has declined. The export figures show the opposite tendency. The table on page 333 shows the percentage of total imports and exports of the principal groups of products over the period 1830–1925 by fiscal years, and for calendar year 1927.

VALUE OF IMPORTS INTO THE UNITED STATES

(Covering certain years from 1913–1927)

Year	Europe	North America	Asia and Oceania	Africa	South America
1913	$892,866,384	$361,943,659	$314,038,218	$26,425,344	$217,734,629
1914	895,602,868	427,399,354	329,096,884	19,149,476	222,677,075
1915	614,354,645	473,079,796	300,292,655	24,953,081	261,489,563
1918	411,578,494	918,347,346	1,072,399,349	75,911,957	567,418,257
1919	372,953,593	1,052,570,196	1,020,912,130	81,065,759	568,374,904
1920	1,179,400,699	1,486,250,288	1,526,560,888	185,195,939	860,944,300
1921	937,950,819	1,207,459,976	968,916,878	54,871,770	484,249,987
1922	830,543,712	700,739,286	735,797,703	52,101,238	288,897,069
1923	1,161,501,614	987,510,715	1,068,722,103	91,722,103	471,307,088
1924	1,065,599,400	996,470,808	992,034,590	70,429,363	429,604,108
1925	1,170,519,000	960,037,000	1,113,552,000	84,442,000	495,576,000
1927	1,276,246,978	985,455,474	1,311,423,214	93,255,348	517,997,187

PER CAPITA AMOUNTS OF IMPORTS AND EXPORTS FOR THE UNITED STATES

(Covering certain years between 1810 and 1927)

Item	1810	1820	1830	1840	1850	1860	1870	1880	1890	1900
Imports	$11.80	7.71	4.87	5.76	7.48	11.25	11.06	12.51	12.16	10.93
Exports	9.22	7.22	5.57	7.25	6.23	10.61	9.77	16.43	13.43	17.79

Item	1910	1914	1919	1920	1921	1922	1923	1924	1925	1927
Imports	$16.54	19.04	28.96	49.12	33.96	23.77	33.97	31.60	33.72	35.25
Exports	18.28	23.27	67.60	76.20	60.37	34.37	35.55	38.50	42.90	40.99

This percentage of imports and exports table reflects clearly the gradual change of the United States from an agricultural nation, exporting food products and importing manufactured products, to an industrial nation, which finds it more and more necessary to import foodstuffs, and is also increasingly dependent upon the outside world for the raw materials used in its manufacturing plants. The increase in the relative amount of exports of manufactures ready for use from 9.34 per cent in 1830 to 36 per cent in 1923 is especially significant of the change in economic organization in the country.

Although, industrially, the United States has become fairly independent of the outside world, it still pays to import manufactured articles in competition with those produced in this country, and it always will pay to do so to a limited extent. But the future of import trade will lie more especially in the introduction of articles of luxury, or of a highly technical nature, than in the common necessaries of life. Arti-

PERCENTAGE RATIOS OF TOTAL IMPORTS AND TOTAL EXPORTS OF THE UNITED STATES, BY GROUPS OF PRODUCTS

(Covering certain years between 1830 and 1927)

Fiscal year	Crude Materials for manufacturing		Foodstuffs crude		Foodstuffs Manufactured	
	Imports	Exports	Imports	Exports	Imports	Exports
1830	6.72	62.04	11.77	4.65	15.39	16.32
1840	11.71	67.61	15.54	4.09	15.46	14.27
1850	6.75	62.26	10.38	5.59	12.37	14.84
1860	11.22	68.31	12.94	3.85	16.92	12.21
1870	12.76	56.64	12.41	11.12	22.03	13.53
1880	19.74	28.98	15.01	32.30	17.69	23.47
1890	21.62	36.03	16.28	15.62	15.65	26.59
1900	32.50	23.73	11.52	16.48	11.66	23.32
1910	36.37	33.10	9.30	6.42	12.02	15.16
1914	33.42	34.03	13.09	5.90	17.07	12.59
1919	40.41	17.19	12.15	10.17	14.73	25.24
1920	40.88	24.76	11.18	7.88	17.01	19.05
1925	38.00	29.30	11.80	10.10	11.80	12.10
1927	38.20	25.10	12.10	8.90	10.80	9.70

Fiscal year	Manufactures for manufacturing		Manufactures ready for use		Miscellaneous	
	Imports	Exports	Imports	Exports	Imports	Exports
1830	8.22	7.04	56.97	9.34	0.93	0.30
1840	11.56	4.34	45.09	9.47	.64	.22
1850	15.08	4.49	54.93	12.72	.49	.10
1860	9.87	3.99	48.68	11.33	.37	.31
1870	12.75	3.66	39.82	14.96	.23	.09
1880	16.59	3.52	29.43	11.26	1.54	.47
1890	14.81	5.50	29.23	15.68	1.17	.58
1900	15.79	11.18	23.90	24.20	.64	1.09
1910	18.31	15.66	23.62	29.19	.74	.47
1914	16.86	16.06	23.72	31.11	.89	.31
1919	19.57	13.47	12.70	33.71	.44	.22
1920	15.30	12.47	14.22	35.67	.71	.17
1925	18.40	13.50	20.00	35.00	....	....
1927	17.90	14.70	21.00	41.60	....	....

SUMMARY OF IMPORTS AND EXPORTS OF MERCHANDISE FOR THE UNITED STATES, BY FISCAL YEARS

(Covering certain years between 1918 and 1927)

Products	1918		1919		1920		1923		1924		1925		1927	
	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent	Millions of dollars	Per cent
Crude materials for use in manufacturing	1,230.3	41.76	1,250.7	40.41	2,141.5	40.88	1,475.9	40	1,200.3	33.8	1,452.	38.0	1,601	38.2
Foodstuffs in crude conditions and food animals	372.7	12.65	376.2	12.15	622.1	11.88	352.3	9	385.5	10.8	451.	11.8	505.	12.1
Foodstuffs partly or wholly manufactured	380.2	12.91	456.2	14.73	891.0	17.01	506.7	13	530.2	14.9	451.	11.8	451.	10.8
Manufactures for further use in manufacturing	540.7	18.36	605.8	19.57	801.2	15.30	711.3	19	658.3	18.5	701.	18.4	750.	17.9
Manufactures ready for consumption	402.7	13.67	393.2	12.70	745.2	14.22	716.8	19	756.2	21.3	769.	20.0	877.4	21.0
Miscellaneous	19.1	.65	13.7	.44	37.4	.71	18.0	...	23.6	0.7	.....	.....	.....	.....
Total imports	2,945.7	100.00	3,095.8	100.00	5,238.4	100.00	3,781.0	100	3,554.1	100.0	3,824.	100.0	4,184.4	100.0
Total exports	5,838.7	.....	7,074.0	.....	8,109.0	.....	3,957.0	...	4,311.3	....	4,864.	.....	4,865.	.....

cles that derive their value largely from expert workmanship, secret processes, and artistic ability, such as silks, laces, woolens, cutlery, jewelry, pictures, rugs, laces and embroidery, will continue in demand in increasing quantities.

To these manufactured products must then be added the raw materials of manufacture, and the food products that cannot be produced at home, such as ores, raw metal, hides, wood, tropical and semitropical fruits, mushrooms, cocoa, tea, coffee and spices.

3. *The organization of import trade.*—The organization of the import trade in manufactured products is the more elaborate. Many firms are both importers and exporters. The combination is most frequently found in houses dealing with less-developed countries, those, for instance, of South and Central America, North Africa and Asia Minor, where the relatively small business of either importing or exporting would not support the expensive organization that must be maintained.

Transactions in such fields cannot usually be carried on by firms with small capital. This is especially so where the products imported from the foreign market are raw materials or food products, because trade in these staples is usually on a cash basis, or short term credit, and involves larger amounts than trade in manufactures products.

4. *Buying direct.*—The importing firm may buy direct from the producers through its branches established abroad, through local representatives, or

through traveling buyers who make periodical visits to the territories covered.

In case of manufactured goods, much of the buying is direct. Many large department stores send their buyers abroad periodically in search of late specialties and styles. Some stores maintain permanent offices, not only in London, Paris and Berlin, but also in Yokohama and Shanghai. A difficulty in making such offices efficient lies in the fact that they cannot keep in close touch with the American market. For this reason, many houses combine the two methods, and establish a contact between the permanent buying offices and the home office, by means of buyers who make periodic visits.

The foreign office in such cases looks after shipping details, and checks up on deliveries, both as to time and quantity. A certain amount of routine buying is also done by the office, but the most important purchases of fashion goods are entirely in the hands of the visiting buyers, who are thoroughly familiar with the home market.

In the staples, fashions play no part. Price and quality are the sole determining factors. Local buyers, or traveling buyers, or both are used. The wool auctions in Australia, the Siberian fur markets, the indigo auctions in Calcutta, and the tea market in China are visited by traveling buyers. Traveling buyers may also be employed where the purchases are made in large quantities at auction, or as "spot cash" transactions.

5. *Local collectors.*—In many lines the unit of production is so small that native traveling buyers collect the goods and resell them at a central place to representatives of foreign houses. Such collectors, moreover, perform a useful service in grading and sorting the goods. This is the method commonly used in the United States in the case of a large number of farm products. The local storekeeper and the traveling buyer play an important part in the marketing of cotton, wool, wheat, and dried fruit.

In the wool trade in Buenos Aires, the *baraqueo* (warehouse owner) receives wool on consignment for sale to exporters, while in other countries the wool is often collected by storekeepers and traveling merchants, who, in turn, sell it to a local broker.

In some cases, such collectors will pack the goods after cleaning and grading, and mark them with their own trade-marks. This is done by the "baler" of jute in British India, and by the Chinese tea merchants. Similar methods are followed with most of the agricultural products.

In some parts of the world, such as the Balkan States, Southern Russia, Southern Germany, and the Levant, where house industry still exists on a large scale, native buyers travel from town to town, collecting the goods produced, and offering them for sale at some central market. Often the collector furnishes the producer with raw materials, and makes advances on the price of the goods to be produced. This practice often has a detrimental effect upon

the goods produced. Instead of using native patterns and local materials, the producers are then induced to copy the patterns of foreign markets, and to use the inferior materials supplied to them by the buyers. The home industry and domestic art of many sections of the world has been injured by such practices.

Often, the importer buys in a foreign country goods not produced there, but imported for reëxportation. The trade in colonial products is a typical indirect trade. Much of America's imports of spices and other products of the tropics come by way of England, Holland and Belgium.

Before the war, the fur markets of Russia, Germany and England were large auction centers, where Asiatic, Canadian and American furs were sold to visiting buyers. American fur dealers in this roundabout way bought back American furs from European collectors. Fur auctions are now held in New York. Zanzibar, Bombay, Shanghai, and Singapore are also important centers of this reëxporting trade.

6. *Indirect buying.*—Foreign commission houses are of assistance to those importers who do not maintain branch houses or send representatives abroad. In some cases these houses are employed to supplement the work of branch houses. The commission house checks the shipment before it leaves the foreign port, pays the manufacturer or local middleman, and attends to all the details of importation, rendering a

bill including all the charges, and adding from three to eight per cent commission.

Domestic retailers who do not care to carry the risks of foreign trade, find it possible to supply their needs for foreign goods by purchasing from the numerous importing wholesalers or jobbers (these are import merchants corresponding to the export merchants mentioned in an earlier chapter), and through branch houses or representatives of foreign manufacturing concerns. A large proportion of the more specialized articles, such as laces, silks, velvets, and a good share of patented or trade-marked food products, such as cocoa, cheese, and canned fish are bought in this country by domestic wholesalers or retailers from the American representatives of foreign firms.

7. *Methods of placing orders.*—In placing an order with an importing house, or with foreign firms, it is necessary to use great care to avoid misunderstandings. Difficulties frequently arise through a failure to make clear what is included in the price, and what discounts will be allowed.

No general rules can be given. In importing, even more than in exporting, the rule of the foreign market must be followed. Discounts vary considerably, according to the customs of the market and the kind of products bought. The largest discounts are found in the silk and velvet trade in Switzerland and France, amounting sometimes to 25 per cent. Staples are not usually sold under trade discounts.

Much of the European business is carried on open account, but staples are usually sold against documentary drafts. In South America and the Far East, commercial letters of credit are used to a large extent.

In an earlier chapter of this Text attention was called to the necessity of being specific in the use of such abbreviations as f.o.b., c.i.f. or c.i.f. & e. This same statement applies to the import trade. When prices are quoted f.o.b., it may be taken for granted that such quotations include the least that the term allows. Therefore, f.o.b. means "at the factory." If quotations are desired on board the ocean vessel, the importer should insist on a clear understanding that the goods are to be delivered, for example, "f.o.b. ocean vessel, Rotterdam," or "f.a.s. Red Star Line, Antwerp," "f.a.s." meaning "free alongside," i.e., within reach of the ship's tackles.

The foreign seller, to whom is entrusted the task of filling out the consular documents, should be instructed in the method to be followed, and pains should be taken, where unusual articles are imported, to assure that they shall receive the most favorable treatment at the customhouse.

Importers must reckon with the United States tariff. Their business is affected not only by every tariff change, but also by rulings of the courts and the Treasury Department concerning the way in which existing laws should be interpreted. Importers frequently sell before they buy. In such a case,

a change in tariff regulations may upset their calculations completely. For this reason, they often take orders "subject to change in the tariff, in classifications, or in interpretations of existing regulations."

It is a matter of common occurrence that imports increase very noticeably whenever any tariff changes are being considered. This attempt to place the goods on the market under the old and lower rates, in order to profit by the subsequent increase in duties, often leads to a temporary glutting of the market, because, as is usual in such cases, this bright notion is not confined to one importer, but is a practice common to all.

8. *Documents required.*—When importing goods into the United States, the processes followed in clearing at foreign ports and the documents required to secure clearance in American ports, are substantially the same as those required for exportation from this side.

The following regulations are of general application: The consular invoices must be made out in the currency of the exporting country, and must contain a full and detailed description of the goods. Usually three copies are required. These must be presented to a United States consul for his vise, and the importer, or the seller, who in that case acts as the agent of the importer, must declare that the facts stated in the invoice are correct, and that no other invoice giving a different description or quoting different prices, has been furnished to any one.

The American consular invoices are of three kinds, as follows: One is used for goods purchased by the importer, another form is used for goods not purchased by the importer, another form serves for "returned American goods." A fee is charged for the certification of any of these documents.

The consul makes out a list of all invoices certified at his office, giving the number of the invoices, the date of certification, the name of the shipper, and the amount of the invoice, which list is forwarded in duplicate to the Collector of Customs in the United States, to enable him to verify invoices presented at his office.

In addition to these invoices, special documents are required for the importation of certain articles. Upon importing food and drug products, an additional "Special Invoice of Food and Drug Products" has to be certified by the consul. This document is for the Bureau of Chemistry of the Department of Agriculture, and is intended to prevent the importation of adulterated foods or drugs that might prove injurious to public health. No fee is charged for this certification.

Sometimes merchandise must be disinfected before the consul will grant his certification on the consular invoice. A special blank is used in such a case, declaring that the goods called for in the invoice have been "disinfected in accordance with the Treasury Quarantine Regulations of October, 1910," under the consul's personal supervision.

The value appearing on the invoices must be the "true market value," or wholesale price, of the goods at the time and place of exportation. When the documents reach the importer, he may suggest such changes in the declared values as will bring them more closely in agreement with the true market value.

The appraisers at the port of entry, in any event, determine whether the goods were correctly valued. In the case of goods subject to an ad valorem duty, if the appraised value is greater than the declared value, an additional duty of one per cent of the appraised valuation is charged for each one per cent at which the value was understated. This extra duty is limited to 75 per cent of the value of the goods. An understatement in excess of 75 per cent is considered a fraudulent entry, and is punished accordingly. Goods imported on consignment are to be entered at the cost of production. All goods of foreign manufacture must be marked so as to show the country of origin, and all boxes or cases containing such articles must be similarly marked.

A number of articles may be imported under bond. Machinery, models of women's wearing apparel, samples, articles brought in by tourists for their own use, and shipbuilding material may all be imported under bond for a period of six months. Similar documents are required for the importation of goods by rail from Canada.

The Canadian Pacific Railway Company requires a "shipping order," by which the freight agent is

ordered to receive the goods described. This order is issued in duplicate. The duplicate is filed with the customs official at the point of entry in the United States. Upon presentation of the original of this shipping order, and after checking the shipment with the amount called for in the order and in the bill of lading, the agent signs the bills of lading. These are issued in triplicate. One, the original and negotiable, is sent to the consignee; the duplicate is filed with the customs officials at the point of entry in the United States; the third copy is retained by the shipper. In addition, a "memorandum" is issued, which corresponds in every way to the bill of lading, but bears the heading "Memorandum" and states that it is "an acknowledgment that a bill of lading has been issued, and is intended solely for filing or record."

The exporter must then prepare, in duplicate, an "export entry," stating in detail the marks and number of the articles, describing these articles, and indicating their values. Both copies are attached to the bills of lading when these are presented to the railroad company.

Four consular invoices are now prepared, of which one is signed by the United States consul and is handed to the railroad company. For this signature a consular fee is charged. Two copies are filed with the consul, and the fourth copy is kept in the files of the shipper.

One consular invoice may cover more than one car, if going to the same destination. The form of the

invoice used is identical with that required for importation by vessel.

9. *The process of clearing.*—When the ship arrives, the merchandise must be cleared. The first thing to do is to file clearance or entry papers with the local customs authorities. Most customhouses are divided into a marine division, an entry division, a bonded merchandise division, a law division, a drawback division, and a liquidation division.

The entry division supervises the clearing of merchandise. The papers to be filed are: One copy of the bill of lading, a copy of the invoice, the consular invoices, and an "entry blank," filled out by the importer, in which he has translated the value of the goods into United States currency on the basis of the rates published by the Secretary of the Treasury every three months.

The importer may make a "cash entry" or "entry for consumption," i.e., he declares his intention to pay the duties immediately, or he may make entries for "warehouse," for "warehouse and transportation without appraisement," for "transportation and exportation," and for "re-warehouse." If goods are not entered within forty-eight hours after the arrival of the ship, they are sent to the custom warehouse, and if not claimed after a period of one year they are publicly sold.

Vessels are required by the customhouse regulations to unload within a prescribed period. Ships of less than 500 tons are allowed ten days, those of from

500 to 1,000 tons are allowed fifteen days, from 1,000 to 1,500 tons, twenty days, and those measuring more than 1,500 tons are allowed twenty-five days. Since it is to the advantage of the shipowners to allow the vessel to spend as little time as possible in unproductive loading and unloading, the actual period required in each case is usually far less than the maximum allowed.

The examination of the goods is made by the appraiser. If the goods are of a uniform nature, the process is simplified by limiting the examination to about ten per cent of the total shipment. This amount is held back by the customs officials for inspection. The remainder may be made "deliverable." In such cases a deposit must be made, guaranteeing the paying of duties when the correct amount due has been determined. When the duties have been paid a "delivery permit" is issued, and the goods are definitely released.

10. *How the appraisal is standardized.*—Coöperation between officials of the forty-seven customs districts of the United States is highly desirable, so that goods imported at various times, and in different harbors may receive the same treatment. In the case of staples, samples of the various grades that can serve as standards, are kept at each customhouse. The trade is usually asked to coöperate in determining these standards.

In the case of manufactured products it is difficult to obtain standardization. A basis for appraisal has

been devised for certain highly-specialized products. The lace trade in Switzerland has prepared the "Saint Gall Schedule" for the appraisal of laces, and the porcelain industry the "Limoges Schedule." The customhouses throughout the country are in communication with the Comparative Value Report Bureau, which has been established to bring about greater uniformity in the administration of the customs regulations.

In order to give the appraiser a sound basis for judging the "true market value" a corps of special agents is maintained by the custom service in commercial centers abroad, charged with the collecting of data regarding market conditions and prices.

If the importer disagrees with the judgment of the appraiser, he may appeal to the United States Board of General Appraisers. From their decision appeal may be made to the United States Custom Court of Appeals, and, in rare cases, to the United States Supreme Court.

11. *Importation in bond.*—Goods entered on a "warehouse entry" are allowed to be imported "in bond." The appraisal is made at the time the entry is accepted. Weight and value at the time of entry determine the duties to be paid later. Deterioration or loss of weight does not affect the duty. Since the amount of duty has been determined, release from bond can be secured speedily.

The importer must produce a bond for the amount of the duty that would be levied in case the goods

were finally withdrawn for consumption. This bond is released only after the duty is paid, when the goods are withdrawn for domestic consumption, or when the goods are released for reëxportation. The importer receives from the warehouse a warrant or receipt for the goods. This warrant may be used to secure a loan at the bank.

The charges for the use of bonded warehouses differ according to the products stored, and local conditions. In most cases, the space occupied is the basis of charge, and the rate is usually by the month. In addition to this, a monthly charge is also made for labor. A quotation may be made: "20 and 15," meaning that a storage charge of 20 cents per package per month must be paid, and that the charge for labor in and out is 15 cents per case.

When the goods are withdrawn for exportation, the owner makes out a "declaration," in which he declares that the goods removed from the warehouse are intended for export, and are "the same in quality, quantity, value and package (wastage and damage excepted), as at the time of importation." The exporter, moreover, signs a bond double the value of the shipment, whereupon the collector of customs issues a permit of withdrawal. This bond is released upon the presentation of a "landing certificate" by means of which an American consul, or in some cases a local official of the port of importation, declares that the goods were actually landed upon a foreign shore.

12. *Reimportation of exported goods.*—Goods of American origin may be reimported free of duty. In order to receive this favorable treatment, the special consular invoice described in a preceding paragraph is to be filed with the collector of the port of entry. In case it is impossible to produce this declaration, the goods may, nevertheless, pass into the country free of duty upon the execution of a bond for the production of such a declaration.

In addition a "certificate" must be secured from the collector of the American port from which the goods were originally shipped, stating that these goods were actually cleared outward through his office. Where the American origin of the goods is above question, the production of this certificate may be waived.

13. *Customs broker.*—The customs broker and freight forwarder, who make themselves useful in the exportation of goods by shouldering all the confusing details of the customhouse, play a similar part in the import business.

The broker appointed by the importer as his agent should receive, as promptly as possible, the necessary documents, so that the clearing of the goods may not be delayed. Frequently, the broker notifies the importer of the approximate amount of the duty, and receives this amount from the importer before the duty is paid. Later, he renders an account, including a broker's fee of approximately $5. The amount

of this fee is usually not affected by the value of the goods. Customs brokers are licensed by the Secretary of the Treasury.

REVIEW

Enumerate the documents required for importation by ocean steamer to satisfy the United States customs regulations.

Describe how a rail shipment from Canada to the United States is handled and what documents are required.

Relate, step by step, the process of "clearing" a shipment.

Explain how uniformity of appraisals is secured.

CHAPTER XIX

BANKS AND FOREIGN TRADE

1. *Banks and domestic business.*—One of the most striking contrasts between the way business is carried on in the United States and in most other countries lies in the difference in the relationship between the banks and the business world. In the United States almost all payments are made through the banks. Here not only business men, but salaried men, and even men working for a daily wage, have their bank accounts, and are accustomed to pay their business and private bills by bank check.

The situation is quite different abroad. The banks play a much less important part in the general life of the community and the use of checks is, in the main, limited to large concerns and large sums of money. The small business man does not depend upon the bank to finance him, but depends almost wholly on commercial credit, or upon loans secured by the assignment of accounts, or even on the basis of life insurance policies.

2. *The European middle class.*—The European commercial and industrial world, and this holds true also of South America, is sharply divided into two

classes: the commercial and industrial middle class and the large producers.

When we speak of the middle class in North America or England, the term is intended to indicate that large group of persons who are neither poor nor very rich. It is a class to which a professional man, a banker, a salesman, a government official are all proud to belong.

In other parts of the world it is quite different. In many European countries, the existence of a definite and sharply-defined middle class is recognized in law, and sometimes special departments are created in the government to look after the interests of that class. Het Ambt voor deen Middenstand in the Belgian government is an example. This special attention is given to the middle class in order to protect its members against the ever increasing competition of big business, and against the pressure of the working classes, who are ever more insistent in their demands.

This situation is of significance to the foreign trader. It affects his business in many ways. In the first place, it again emphasizes the fact that the market is much more stratified abroad than it is in the United States.

The spending habits of persons in the various occupations and social groups in the United States do not differ nearly so much as those of similar groups abroad, where groups are recognized to exist, and are even defined by the law. This situation affects the business of the foreign trader in yet another way.

3. *The need of credit.*—One distinguishing mark of the commercial middle class is lack of capital. It is difficult for the small man to obtain bank credit. He depends for his investment and working capital almost entirely upon his own capital. Incorporation being difficult and costly abroad, and placing upon a concern the obligation of unwelcome publicity, most small concerns choose the partnership organization when forced to take in outside capital.

In order to aid the small concerns, middle-class credit institutions have been organized in many countries. These are usually on a coöperative basis. They are in a position to finance only domestic credits.

Enough has been said to make it clear that the foreign trader who deals directly with the small merchants, the small retailer, or contractor, must be prepared to extend credit. He will find that the local wholesaler or manufacturer carries the retailer for a long period, and that the dealer is in no position to buy for cash, or on short credit, from a foreign firm. Along with this need for credit comes the difficulty of obtaining reliable credit information about these small firms. This is especially difficult, because they have no very important banking connections, and are loath to give information about their internal affairs.

4. *The banks and large business concerns.*—The situation becomes quite different when the larger business concerns are considered. The large retailer and manufacturer and the large importer are usually

closely connected with one or more banks. In fact, the relationship between big business and the banks is frequently much closer than in the United States, through interlocking directorates, and through the circumstance that abroad the governments do not, as a rule, discourage combinations of big business. The larger the units, the more easily coöperation is secured. The larger concerns have usually no difficulty in securing credit service from their banks.

Size as such, does not affect the need for credit. Most foreign trade transactions are peculiarly in need of credit facilities. They place an unusual strain on the working capital of a concern.

The reasons for this are not difficult to see. A foreign transaction involves invariably a longer period of time than a domestic transaction. This, in itself, means that the amount of working capital involved in such transactions is larger for the same volume of business than in domestic transactions, which have a more rapid turnover.

Likewise, the amount involved in each transaction is usually larger. In the case of raw materials this is notably true, but in the case of manufactured goods, as well, the amount involved in each transaction is usually larger than in domestic business. In the first place, more charges accumulate for freight, insurance, import duties and other incidentals that increase the amount of the bill. There is, moreover, a good reason why orders should, as a rule, be larger in foreign trade. The time involved in filling an

order makes it necessary to have on hand larger stocks with which to supply current demands of the consumers. On account of shipping conditions, it is more economical to ship a larger shipment than a smaller one. All this means that it pays to make foreign orders large. But this requirement, at the same time, increases the need for bank credit.

5. *The banks and foreign credit information.*—The need for banking assistance when carrying on foreign transactions is still further increased in that it is extremely difficult to obtain reliable foreign credit information. As was pointed out in an earlier chapter credit agencies corresponding to the American exist in most foreign countries. The information they collect is, however, not nearly as detailed and reliable as that supplied by agencies like Dun or Bradstreet.

The credit agencies abroad labor under great difficulties. The merchants are not as yet generally accustomed to the work of these agencies and resent their inquiries. The result is that books with credit ratings, such as are used in the United States, are not known in foreign countries. Each inquiry is a special inquiry.

Banks which carry on an extended foreign business soon accumulate very valuable credit files. They are in a position to know, and through their branches and correspondents can quickly and inexpensively gather information.

6. *General foreign trade information.*—For the

same reasons banks are in a position to give information about foreign trade opportunities. Many of the larger banks distribute general trade information through periodic publications. Most banks doing a foreign business have a special department organized for the purpose of collecting and distributing such general trade information. In these departments special reports are prepared upon selected markets or products, all intended to keep the customers of the bank informed of changing conditions.

7. *Aid in foreign trade development.*—Besides general trade promotion and information activities, the banks are also prepared to aid the foreign trader in a very concrete way. If the merchant is about to go abroad, or is sending a representative into the foreign field, the bank will supply him with letters of introduction to its own branches, or to its correspondents. The foreign trade department will prepare an itinerary, and will furnish the names of individuals or concerns who would make reliable representatives.

8. *The banks buy and sell foreign exchange.*—Another important function of the banks is the selling of foreign means of payment. When goods have been imported from abroad, or are about to be imported, and payment is due in a foreign country, the banks in this country will sell drafts for the required amount of foreign currency. These drafts are drawn upon balances kept abroad with branch banks or correspondents.

A traveler going abroad will find such drafts convenient for the carrying of funds. These drafts may be issued in fixed sums. They are then readily acceptable, and may be used for the making of small payments in hotels and stores abroad. Traveler's checks are issued in standard form, and are known as A. B. A. (American Bankers' Association) checks. The American Express travel checks are of the same character.

The traveler's letter of credit is another variation of the draft. The letter is drawn not upon one bank, but upon a long list of correspondents in every corner of the world, and payment may be made for any amount desired, up to the total of the letter of credit.

However, the banks also buy foreign means of payment. An exporter may draw a draft upon his foreign customer and may then sell his draft to his bank.

9. *Future exchange transactions.*—When selling or buying in foreign markets, the most disturbing element at present is the uncertainty of the value relation between the money of the foreign country and our own. Suppose an importer has calculated that, on the basis of a given price in marks, he can, after paying freight, insurance and import duties, sell with a profit at a stated price. He now proceeds, on the basis of samples, to contract for delivery at that price to local dealers. When the goods are shipped and the bill falls due, he finds that the mark has advanced so that his entire calculation is upset.

As another instance, let us assume that an exporter has quoted in marks. By the time the draft is collected in Germany the mark may have dropped in value so that the exporter does not receive in dollars more than possibly two-thirds of the amount that he had expected to receive.

Even in normal times such uncertainty exists, although to a much smaller degree. It introduces a risk that it is unwise for a merchant to assume. Here, again, the bank steps in and assists.

As soon as an order has been received from abroad, for which payment will be made in a foreign currency, the exporter may offer this future foreign payment for sale at the bank. The bank then agrees to buy this exchange at a certain rate. The exporter now knows that a price quoted in terms of foreign money will yield him a definite sum in dollars.

The importer may, in the same way, purchase future exchange. The bank, in this manner, provides insurance against exchange fluctuations.

10. *The importance of this service.*—It may be said that the exporter may easily avoid this difficulty by always quoting in dollars. This is, indeed, an easy way out of the difficulty, but it has two disadvantages.

In the first place, the foreign customer will prefer to have his prices quoted to him in his own currency. Other foreign concerns are quoting their prices to him in that way, and he wants to be able to compare the prices of the American goods with those of other foreign and domestic firms.

Another objection is that the foreign exchange risk is not borne by the American exporter or his bank, but must be faced by the foreign buyer. Unless this buyer has the opportunity and the foresight to cover himself by a future transaction, he may find himself greatly embarrassed by the change in value of the dollar, and may try in some way to crawl from under his obligations. Quoting in dollars may therefore be easier, but it may also increase the credit risk.

11. *Banks collect bills.*—As a general rule, banks will not buy outright any foreign bill. They will lend the drawer a certain advance, but the bill itself is usually accepted for collection. The German banks before the war would frequently buy outright, bills drawn by their customers upon firms in good credit standing abroad. This purchase "without recourse" amounted virtually to foreign credit insurance.

Present conditions do not make such transactions advisable. In fact, the German banks have had sad experiences with this practice, and it was only because of the close coöperation between banks and business, and the systematically carried-out foreign trade policy of the banks that this method came into general use.

12. *The banks supply credit.*—The need for credit in foreign transactions has been pointed out. The most important function of the banks is to answer this need. Raw materials travel from producer to consumer, financed at every stage by the banks. The

owner of a sugar plantation in Java borrows money from his bank to buy cane for planting, to pay his laborers, and to purchase machinery with which to press the sugar. The bank takes the sugar and transports it to Europe, stores it until sold, sells it, and remits to the plantation owner the proceeds, after deducting expenses and the amount of the loan, plus interest.

The buyer of wheat pays the farmer cash for his crop, and, after storing the wheat in the local elevators, borrows money from the banks, with the warehouse receipt as security. From then on, the banks finance the wheat until it is sold to the bakers in Europe. As security, the banks receive, first, the warehouse receipt. This is exchanged for a railroad bill of lading, and again for a warehouse receipt after arrival in the primary markets. This warehouse receipt is again exchanged for a railroad bill of lading, which, in turn, is exchanged for a warehouse receipt while the wheat is waiting shipment in the port. In due course, this warehouse receipt is exchanged for a steamship bill of lading, followed by another warehouse receipt when the wheat is stored in a foreign port.

13. *The financing of manufactured goods.*—In a similar manner the banks finance the movement of manufactured articles. If the exporter sells his draft upon the foreign customer to the bank, or, while presenting it for collection, obtains a loan, it is again the bank which supplies the credit.

It may be that the exporter has required the buyer to make payment in the port of exportation before the goods leave the country. In that case, it is again the bank which supplies the funds, always, or at least nearly always, receiving as collateral the documents through which the ownership of the goods is transferred.

14. *The bank provides guarantees.*—In continental practice, the buyer not infrequently requires the seller to produce some security by which the actual execution of the order may be guaranteed. There have been times when much difficulty was experienced by buyers abroad with the failure of sellers to deliver the goods on time, if at all. The constantly changing prices, the scarcity of raw materials and the fluctuating foreign exchange rates, which often open up unexpected avenues of large profits by selling goods elsewhere, are the principal causes for the failure of sellers to deliver.

The buyer may therefore require that the seller instruct his bank to guarantee that the order will be filled. In case delivery does not take place, the bank will then pay an indemnity to the buyer.

15. *The commodity trust companies.*—The Central European countries have been obliged to import large quantities of raw materials on extremely long credit terms. Frequently, foreign producers have found it advantageous to have raw materials worked in Germany rather than in their own factories. In both cases, some additional security was needed to

protect the foreign firm supplying the raw materials.

In order to supply this need, a new type of banking institution has been created, the commodity trust company. A number of such concerns are at present in operation in Central Europe. They guarantee to the foreign firm that the raw material will be used for the purposes agreed upon, and that the proceeds will be applied to the liquidation of the credit furnished. Several specialized "Warentreuhand" organizations have been established for the different trades.

16. *The American branch banks.*—Under the provisions of the Federal Reserve Act, member banks possessing a capital of $1,000,000 or more may file an application with the Federal Reserve Board for the privilege of establishing branches in foreign countries. This provision has done much to improve the position of the American exporter.

The advantages of foreign branch banks are many. Banks with branches are in a better position to gather trade and credit information. The foreign firms are gradually becoming acquainted with the American way of gathering credit data, and they are frequently willing to give information to the representatives of American banks which they would not give to representatives of local credit agencies.

In the collecting of bills there is a great advantage in dealing with only one banking organization, and especially with one familiar with both the foreign and the domestic market conditions and customs. The bank, knowing both parties to a contract, and know-

ing that the entire transaction will be carried to conclusion under its own supervision, can and will give more liberal credit.

17. *American foreign trade banks.*—In the European countries, many banks exist exclusively for foreign business. These banks have played a very important rôle in the development of the trade of their respective countries. Germany, especially, has been active along this line.

Though the Federal Reserve Act allowed the American national banks to open foreign branches, the activities of these branches are still subject to many restraining regulations. As branches of national banks, they are subject to the provisions of the Federal Reserve Act and the rulings of the Federal Reserve Board. The Act was framed to guide banks engaged in domestic business. As such, it was wisely conceived and has stood the test of prosperous and of hard times. But foreign trade demands a more liberal interpretation of banking principles. More must be left to the judgment of men directing the banking transactions.

In order to give national banks the greater elasticity in the management of commercial credits that foreign trade demands, the Edge Law of 1919 apthorized the establishment of a special group of banks, organized exclusively for foreign trade. The McLean Act of the same year allowed national banks, without regard to size, to become stockholders in such foreign trade banks.

These Edge-Law banks are designed, in the first place, to provide commercial credit of longer term than would be wise to use in domestic business, and longer than the national banks are allowed to extend. In the second place, they are intended to provide channels through which American capital may find profitable investment opportunities in foreign fields. Though not members of the Federal Reserve System, these banks have been placed under the supervision of the Federal Reserve Board.

18. *The investment function of the banks.*—Expansion of domestic enterprises has taken place at such an enormous scale, and the opportunities for large returns have been so promising in the past, that until recently American capital has been attracted but little to investments in foreign enterprises.

In Chapter XX we will point out how forces are at present at work to encourage the investment of American capital abroad. In this work the banks are destined to play an important rôle.

Many American banks have been active in recent years in developing a wider market for foreign securities in the United States. The American public is slowly being educated to the point where the mere fact that the investment is outside the United States no longer arouses its suspicion.

REVIEW

Explain what is meant by "middle class" on the Continent of Europe, and how its existence affects foreign trade.

Discuss the activities of banks in the promotion of foreign trade.

Explain how an exporter may escape the dangers of foreign exchange fluctuations.

Account for the establishment of "commodity trust companies" on the Continent and explain their functions.

Outline the purpose of a bank guarantee as practiced in continental selling.

CHAPTER XX

NEW CONDITIONS IN FOREIGN TRADE

1. *A new world order.*—Future historians will undoubtedly characterize the period beginning with 1914, the year of the World War, as the period during which the balance of financial power shifted from Europe to the new world. We are too close to the events that led to such a commercial and financial upheaval to estimate their significance correctly. It is not impossible that the shift in relative importance may go even deeper than the mere surface indications of financial concentration. There are indications that the new world is remolding the ancient culture of the old world into new forms more suited to modern life.

The skyscraper architecture represents a new form of architectural art. Out of the disharmonies of recent musical attempts, new forms may arise. South America is to-day the center of Spanish literature, music and art, while Spain lies relatively dormant. These are the two elements in the new world order—financial power, and the rise of a new culture.

Where, in Europe, the position of the United States is discussed seriously both elements are considered, and the cultural element is not infrequently

causing more anxiety than the financial. Therefore, we will give consideration to both aspects of the changed position of the United States.

2. *Factors in European decline.*—The growth of the importance of the United States is both relative and absolute. Had normal conditions continued to exist, there is little doubt that the United States would have gained in importance through the rapid accumulation of capital, and the development of its resources and of its industrial plants. The process has been greatly accelerated through the conditions arising out of the war, and has been relatively magnified through the tremendous drains put upon the countries of Europe. Many factors have contributed to hold back developments in the industrial countries of Europe.

It must be remembered that not all countries of Europe were affected to the same extent by the conditions we shall describe. Some countries, like Holland, Switzerland and the Scandinavian countries, were affected relatively little. We must, therefore, be somewhat careful in drawing conclusions when we group all the various countries of the Continent together in our discussion. Nevertheless, in the main we are justified in so doing.

The destruction and expense of the war, the huge governmental debts, the decline in productivity, the dissipation of capital resulting from the period of inflation, the loss of foreign markets resulting from increased competition and from the industrialization

of the colonies and of Latin America, are the principal factors that are hampering.

3. *The cost of the war and the war debts.*—It has been estimated that the total cost of the World War, in losses and expenditures, was about $200,000,000,000. All wars combined, during the period from 1793 to 1913, are estimated to have cost about $20,000,000,000. Of the total cost of the World War, approximately $175,000,000,000 was borne directly by the warring nations of Europe.

These staggering expenditures could not be made on a cash basis. The countries of Europe were forced to mortgage their future incomes to meet them. The net result is a volume of state debts far exceeding any the world has ever seen. The increase in government debts on account of the war is larger than the value of all securities that had been placed on the world's markets prior to 1914. Even if all these issues had been held in European hands, which, of course, was not the case, the war would have wiped all these assets from the balance sheet of Europe, and would have shown a large entry on the liability side.

Only a part of the actual expenditures was financed by loans secured from the non-European nations. Some $10,000,000,000 were obtained from the United States.

4. *Decreased productivity.*—National prosperity is closely linked to agricultural production. European countries, as a group, are now more dependent than ever upon non-European sources of supply.

One factor has been the almost total disappearance of a wheat and rye surplus in Russia. Prior to the war about 41 per cent of all the wheat that was imported by the countries of Europe deficient in wheat came from Russia, Rumania, Hungary and Bulgaria. In other words it came from other European countries. The Soviet experiment in Russia, and "agrarian reform" in other countries, has practically closed these sources of supply, and, more than ever before, must wheat be imported from abroad. The United States, Canada, Argentina and Australia have gained in relative importance through this circumstance.

When the present constitution of the population of the Central European countries and of France is compared with that of before the war, some interesting changes become at once apparent. The percentage of men between the ages of 25 and 50 is far smaller than it was. This decrease is the direct result of the war. There is a relative shortage of men in the most productive period of their lives. Recent statistical studies of Germany also reveal a very great shortage in persons, male as well as female, of from 6 to 10 years. This is the indirect result of the war, and is caused by a decline in births, and excessive infant mortality during and immediately after the war years. It means that there will be another generation of relative shortage of productive capacity.

It is estimated that in Germany, alone, at least 4,000,000 fewer persons are now entering upon the

productive age than would have been available had the war not occurred. Such statistics mean much in countries supplied exclusively from within with population, and not, like the United States and Canada, able to draw upon other countries for the necessary labor force. Considerations such as these are causing concern to European nations.

5. *The effect of depreciating currencies.*—Although the European nations have now returned almost without exception to a gold basis, and the currencies are no longer subject to violent fluctuations, the after effects of the period of inflation have by no means been corrected. Too often it is taken for granted that once stabilization and a return to the gold basis have been brought about, all is well.

When the currency of a country depreciates, the immediate effect is an increase in the prices of all goods domestically sold. The increase in price of all goods purchased abroad may be even more rapid, because in foreign exchange transactions, the real value of the money is more likely to find expression at once than in domestic trade, where habit and confidence in the familiar currency retard somewhat the process of adjustment.

The immediate effect of a severe increase in prices is that those who live on salaries, or upon the income from investments, find their incomes greatly reduced in purchasing power. Very soon, no surplus is left for savings and investment, and capital accumulated during more favorable times must be drawn upon for

support. If the condition continues the "middle class," those who earn moderately and live carefully and cautiously—will be wiped out as far as financial power is concerned. The class from which savings flowed into industry no longer is able to save. This source of capital is closed.

In the place of this group, the backbone of the nation, comes a new group. There arises a group of newly-rich, composed of men who have profited from the rise in prices through speculation and clever trading. Money easily gained by persons unaccustomed to wealth is easily spent. No substantial saving can be expected to come from this class. There will be a demand for luxury goods. Thus arises the curious situation which was observed in Europe, shortly after the war. On the one hand, there was great poverty and actual privation. On the other hand, there was an orgy of spending, instead of the incentive to save which existed formerly. Who indeed would lay aside a few thousand marks, that to-day would buy an overcoat, when the likelihood existed that next month that same sum would buy only a pair of shoe strings?

6. *Business in need of capital.*—In all the countries that went through the period of inflation, a large portion of the surplus funds, that in normal times would have been used to replenish and to increase the capital of the country, was dissipated in current expenditures. With the increase in the cost of raw materials, both domestic and foreign, in freight

charges and in wages, the cost of doing business increased daily, and business enterprises began to suffer from a lack of working capital.

This need was still further increased by the fact that, as prices increased, the sales price set in a competitive market did not always yield a sufficient return to enable the firm to purchase the necessary raw materials to replenish depleted stocks. Prices changed so rapidly that sales were often made below replacement cost. It very soon proved almost impossible to ascertain the true cost of the goods to be sold. The one most disturbing item in cost was depreciation of machinery, buildings and tools. All depreciation charges based upon past cost, when accumulated during the prescribed period, were inadequate to meet replacement costs.

No matter how conservative the management, it was humanly impossible to make adequate provision for future replacements, because the cost of these replacements could not be known. The competitive market, moreover, would not allow the price of the goods to be increased sufficiently to meet adequate depreciation charges based upon replacement costs. Whether they were willing or not, business men were thus compelled to sell out their capital along with their goods.

These conditions led to interesting results. First of all, the situation increased the power of the banks over business. The need for credit weakened greatly the bargaining position of the borrower.

In the second place, it put a premium upon incorporation. Those with surplus funds to invest did not find bonds attractive. There was, however, a good market for stocks, because, through them, investors could share in the ownership of physical equipment that increased in value with each increase in price. Another result was that firms with surplus funds, especially those that were doing a foreign business, were able to absorb a great many weak concerns. This meant a great movement in the direction of concentration of industrial control. Back of all these economic changes lay the crying need for more capital to replace the capital worn out and dissipated.

7. *Industrialization outside of Europe.*—Meanwhile, other changes had taken place in the non-European countries. Those countries that had become dependent upon the supply of certain articles from the European industrial nations, found themselves suddenly shut off and thrown upon their own resources. This interruption of business connections called forth two developments. First of all, it meant that non-European industrial countries were called upon to supply the need. Canada, the United States, and Japan found their factories taxed to capacity to supply this sudden increase in demand. This situation combined with the greatly increased needs of the European countries themselves, led to industrial expansion along many lines.

The second result was that definite attempts were

made to produce locally the goods formerly imported. The textile industry in Japan, in British India, in Mexico and other Latin American countries, and the steel industry in South Africa are only a few of the many examples of the industrial activity that was called forth by this period of isolation.

8. *American development during this period.*—During this period, the United States had an opportunity that no other country enjoyed to the same degree. It was called upon to furnish raw materials and manufactured goods to the countries of Europe, and also to the customers formerly supplied by them.

Along with this industrial expansion came the demand for credit from abroad. This credit demand took on two forms. It was expressed in a demand of the governments that appealed to the United States government to assist them in financing the war and it took the form of commercial credit. The commercial demands were for long-time investment credit, as well as for short-time loans to finance current requirements.

9. *The change in the capital supply of the world.*—Wherever in the world the need for capital was felt, eyes turned toward the United States.

Foreign investments had been made by American capitalists before the war. The oil fields of Mexico and the sugar plantations of Cuba, as well as mining developments in Peru and Chile, had been supplied with American capital prior to 1914.

When the war broke out, approximately $1,242,000,000 of American capital had been invested in Latin America. But this was comparatively little, if we consider that Great Britain at that time had invested in Brazil, alone, about that same amount, and in the other South American countries another $2,500,000,000.

To-day, the investment situation in Latin America presents a different picture. It is estimated that our Latin American interests have increased to nearly $5,000,000,000. To this must be added another $3,500,000,000 invested in Europe, an almost equal amount in Canada and Newfoundland, and another $1,000,000,000 in Asia, and Australia. America has thus become the chief source of supply of capital for South America and for many other sections of the world.

10. *A change in the character of the investments.* —Of significance is also the fact that American investments have changed in character since 1914. Prior to the war, our financing was done through large corporations expanding their activities abroad, or through strong banking groups, rather than through participation on the part of the public in already-existing foreign enterprises. This condition has changed. Along with large investments in governmental agencies, the public has purchased securities issued by many foreign corporations. Increasingly, foreign public utilities, telephone nets,

and hydroelectric development have attracted American capital.

Canada has been a heavy borrower and, by 1928, had absorbed over $190,000,000 in public utilities alone. Italy attracted $78,000,000 and Germany $149,000,000 for that type of investment.

American capital has also found its way into department stores, textile, rubber and lumber companies and in amusement enterprises all over the world.

11. *Americanization abroad.*—Europe does not look with undivided approval upon this changed order of things. Great Britain is not a little disturbed to see the growing importance of New York as a financial center, which, in the opinion of some, has already overshadowed London in importance. Even in the British Dominions, the power of London as a center of finance is shrinking before the increasing power of New York.

Great Britain itself is in need of new capital. Many of the old industries need to be rebuilt from the ground up. The textile and the coal-mining industries have of recent years fought a losing battle against the keener competition. The period of inflation gave some of the European countries an opportunity to rebuild their industries upon modern lines. When prices rise, it pays to tie up as much capital as can be spared in fixed equipment. This condition, fully recognized by German business men, has assisted them to reorganize many of their industries along modern lines.

Great Britain must still undergo this period of readjustment. In some of her modern industries she is in a position to meet world competition on an equal basis, but the older industries are much less favorably situated.

In view of the increased demand for capital at home, the liquidation of many foreign investments during the war, the decline of exports and of the income derived from the shipping industry, Great Britain for some time to come will not be in a position to export capital on the generous scale that prevailed before the war. This restriction is causing concern in Great Britain. Will the dollar drive out the pound in the world's market?

The Continent of Europe is equally disturbed. The flow of capital from America was welcomed, for it was badly needed, but along with it has gone the danger of American control over foreign enterprises. This danger may not seem a real one seen from this side of the ocean, but in order to understand the attitude of European financiers and statesmen, all that is necessary is for us to imagine our own reactions if the situation were reversed.

Suppose that the ownership and the control over such enterprises as the General Electric Company, the Radio Corporation of America, U. S. Steel Corporation, the principal railroads, Western Union and the American Telephone and Telegraph Company passed into the hands of, say, German financiers. Would we not feel justified in expressing alarm?

This danger is taken very seriously in some parts of Europe, especially in localities where the invasion of American capital has been most pronounced.

To this development must be added the effect of the energetic activities of American manufacturers in capturing the foreign markets.

American manufacturers, with the most homogeneous market in the world, a market of unprecedented purchasing power at their very doors, can build enterprises which, through their size and capital strength, may crush their smaller and less-favored European competitors.

When tariff rules threaten to interfere, they go into the countries themselves and build their factories, as Ford, General Motors, Singer, and others have done. They employ modern "American methods" and place their products upon the markets in competition with the local manufacturers.

12. *The methods of defense.*—"What can be done to stop this competition?" is the question that European manufacturers and financiers are asking. These manufacturers realize that, if they fail to meet the American competition, it is because they fail to follow the most scientific and efficient methods.

All over Europe, therefore, there is sweeping over industry a wave of what is called "Americanization," or "Fordization" or "rationalization," bringing about far-reaching changes in production methods which cannot fail to have a most salutary effect upon the countries involved. Even installment buying, for

years pronounced one of the worst evils of the American credit structure, is now being reluctantly accepted by European producers. The Americanization movement, as far as production and selling methods are concerned, is well on its way in most countries of Europe.

But, as could be expected, the change is not accepted gladly. Many see in it sacrificing of the old standards, of the old civilization itself, upon the altar of crude American materialistic efficiency. Mass production and standardization, they fear, will altogether crush out individualism and the desire for the cultural side of life. A visit to America usually cures these pessimists of this fear, but only few can make such a visit, and the fear therefore persists.

13. *The fear of foreign control.*—More real, and at the same time more easily averted, is the danger of American control of foreign enterprises.

Many measures have been taken by most of the countries of Europe to prevent excessive foreign control over their industries. These defense measures take different forms. The most important ones may here be indicated.

It may be that, as in Switzerland, the law prescribes that the board of directors of a company shall be composed, either wholly or largely, of citizens of the country under the laws of which the corporation was organized. Another method found is to place all securities issued in the hands of a trustee, usually a banking institution, and then to issue against these

securities new ones that do not possess the right to vote. The voting privilege is then exercised by the trustee—presumably in the interests of the domestic economic life. It may be that there was issued, prior to the securities intended for foreign distribution, a block of preferred stock, the preferred feature of which consists in an unusually large voting power. Examples are on record of preferred stocks so issued that enjoy 50 and even 500 votes per share. The other stock, with only one vote per share, could then be sold without fear to foreign investors. As long as the preferred stock was not held by foreigners, the foreign holder would have very little chance of influencing the policies of the concern unduly.

Another method was proposed by the British General Electric Company, Ltd. In the spring of 1919, it was proposed to issue "British only" shares in order to obtain new capital, without the danger of allowing the control of the corporation to pass still further into the hands of American investors. The plan was abandoned, but it indicates that the fear of American control is present in Great Britain as well as on the Continent.

14. *Possibilities of friction.*—From what has been said it must be clear that there are many aspects of America's new world position which seem to contribute to a feeling of fear, dislike and suspicion. The successful man who has accumulated great wealth can hardly expect his impoverished competitor

to love him. America's new position is not so very different from this. To this situation must then be added the item of the debt that the countries of Europe owe the United States, approximately $10,000,000,000. The various individual debt agreements with our former allies have scaled down the debts to a very considerable degree, but the fact remains that these countries must continue to pay the United States for about two generations before even the reduced debts are liquidated.

Rightly or wrongly, the United States, in the minds of many people in Europe, is held largely responsible for the high taxes they have to pay, and for retarding the economic recovery of Europe. That the taxes are high cannot be denied. A Frenchman with an income of $4,000 pays about $175 in state taxes, while an American citizen pays only about $22. On a salary of $1,000 the American pays no federal tax. The Frenchman pays $153. In some of the other countries the tax burden is even greater.

To make matters worse, the United States tariff is higher than it ever was, and there is a constant demand for still higher import duties. How the European nations are to pay their debts, when prohibitive import duties make the shipment of merchandise impossible, most economists would find it somewhat difficult to explain.

It is, of course, possible for the payments made by foreign governments on their loans to be reinvested

in European enterprises. This would increase the amount of America's foreign investments, and would postpone the transfer of these payments.

Ultimately, however, the transfers must be made, as they were made in the days of Great Britain's greatest prosperity. But they were made to Great Britain without the handicap of an almost prohibitive tariff rule. Whether Great Britain could have managed to maintain her position as an international investor if she had placed every obstacle possible in the way of receiving interest payments and dividends from her investments, is a question.

Whatever may be said, this much is certain, the situation in which America finds herself is one in which bad feeling, international friction and distrust may easily begin to play an important part.

15. *The direction of investments.*—A very grave responsibility is involved in the matter of foreign investments. On the surface, all is innocent and economically just. Brazil needs capital for further development. Capital is plentiful in the United States. What is more ideal than that this capital should flow to the point where it is needed, and should thus contribute to the development of the world?

But back of this economically sound and mutually beneficial arrangement, something not quite so agreeable may lie hidden. History abounds with cases in which capital to develop a country carried in its wake the desire on the part of the owners of that capital to gain a secure hold upon the country where the

investment was made. The countries of North Africa and China could furnish instances where bayonets followed closely upon the trail of foreign money.

There lies the danger to America's future. Only by constant watchfulness, and by open and free discussions based upon adequate and impartial information, can this country hope to steer clear of the pitfalls of an imperialistic spirit which would not rest until political control had followed financial control.

The loans that in the past have given rise to the most urgent demands for armed intervention, have been those made to governments for other than productive purposes. Military expansions, forts, battleships and ammunition are poor investments. Expenditures for such purposes actually decrease the capacity of the state to repay its loans. They form, indeed, the poorest possible kind of investment from a business point of view. Much would be gained if such loans were no longer made.

The Department of State of the United States, in 1925, asked the bankers about to undertake the financing of foreign loans to furnish information concerning them to the department, "that the government might state whether it believed certain loans were, or were not, in the public interest, such as loans for armament." Although the department cannot prevent bankers from continuing their activities, should a loan be found objectionable, few bankers would care to go contrary to the advice of the State Department. The likelihood that such loans would

later lead to armed intervention is practically excluded.

When such loans are eliminated from the list, the principal causes of attempts at international debt collecting by force of arms will have been done away with. This is a step in the right direction.

16. *Conclusions.*—The United States has taken its place in the world as an influence for good or for evil. A great responsibility rests upon the shoulders of those who direct America's policies, greater responsibility than ever before. Whether we like it or not, the fate of the world is intimately linked to the fate of America. As a nation, we can no longer conduct ourselves as though other nations did not exist. With wealth and power comes the responsibility to use that wealth and power for good.

It is entirely within the range of possibilities, in fact it is almost certain, that, in the not far distant future, our reaching out for foreign markets, our demand for free access to raw materials that we do not control, our increasing investments in other countries, most of them smaller and less powerful than ourselves, will place before us decisions that will involve international peace. Wherever the American exporter carries his goods, wherever the banker finds opportunities for profitable investments, there go American influence and American power. But such power and influence should go hand in hand with a spirit of fair play, and a keen realization of international responsibility.

REVIEW

Enumerate the factors that have contributed to changing the international position of the United States.

Explain the effect which depreciating currencies have upon the capital requirements of business concerns.

Account for the fact that there was a great increase in the number of incorporated firms in Germany immediately following the war.

Explain the methods by means of which European countries are attempting to prevent the control over their industries from passing into American hands.

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Printed and Bound in the U. S. A. by
KINGSPORT PRESS, Inc., Kingsport, Tennessee